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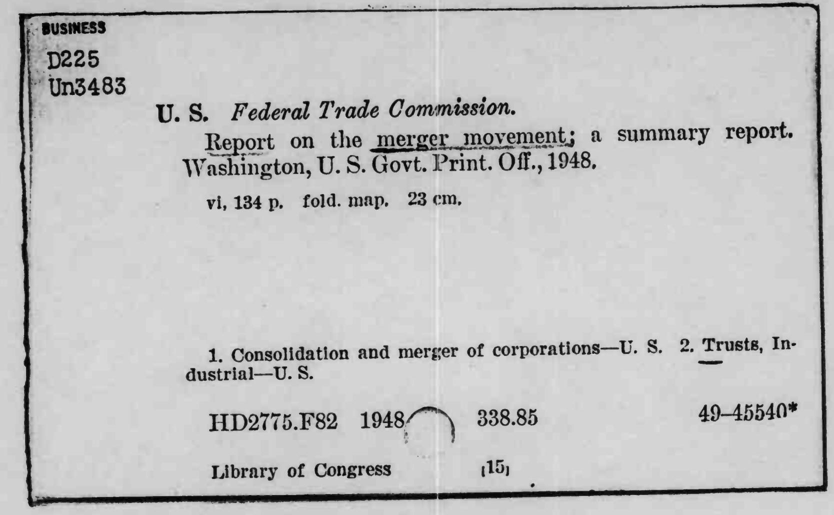

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U. S. *Federal Trade Commission.*
Report on the merger movement; a summary report. Washington, U. S. Govt. Print. Off., 1948.

vi, 134 p. fold. map. 23 cm.

1. Consolidation and merger of corporations—U. S. 2. Trusts, Industrial—U. S.

HD2775.F82 1948 338.85 49-45540*

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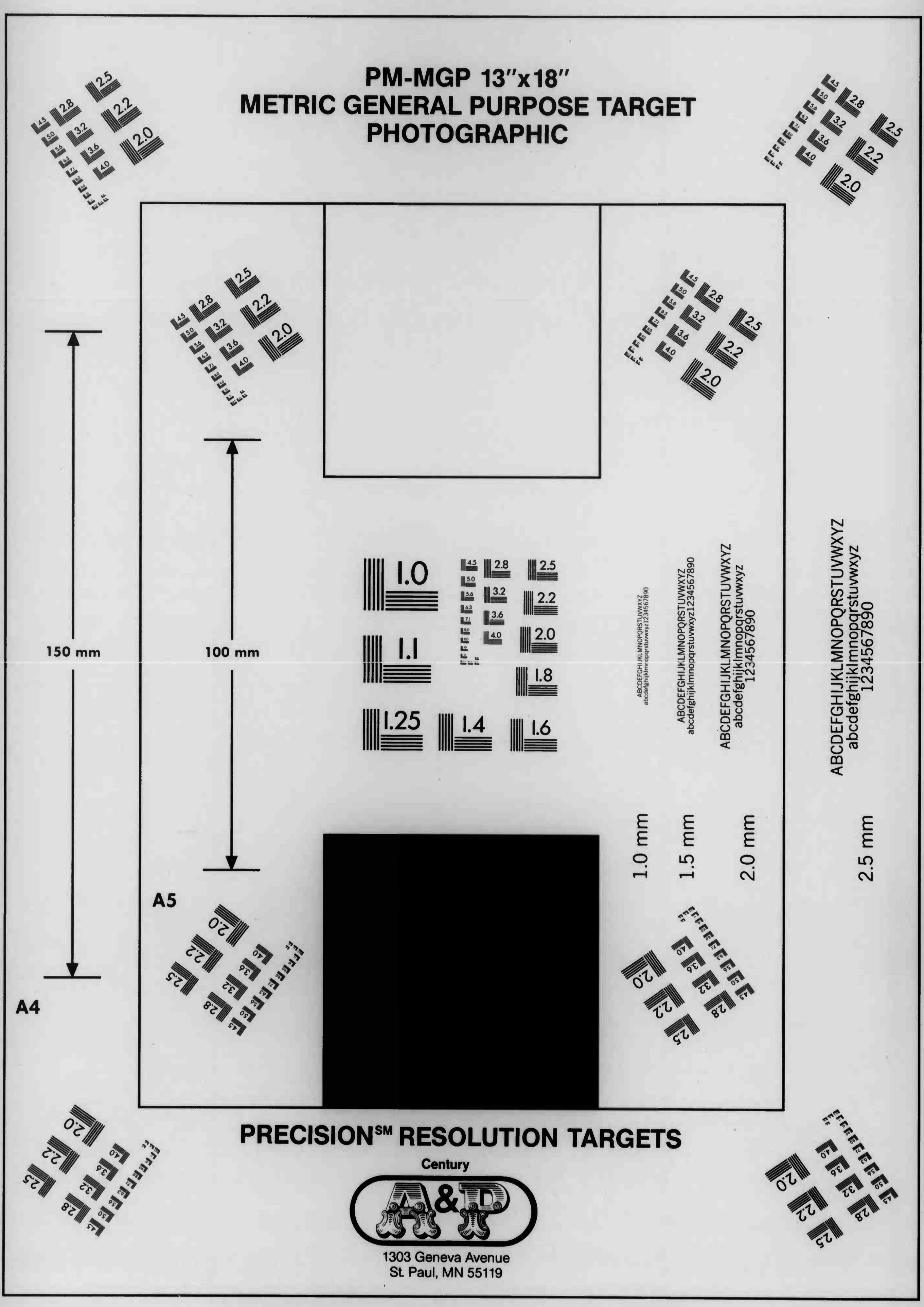

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REPORT OF THE
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ON
THE MERGER MOVEMENT
A SUMMARY REPORT

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REPORT OF THE
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A SUMMARY REPORT

Report

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FOREWORD

This report marks nearly the silver anniversary of the recommendation by the Federal Trade Commission that section 7 of the Clayton Act be amended. For 22 years the Commission has urged that Congress tighten the law, which now permits corporations to buy the assets rather than (or in addition to) the stock of competing firms, and thereby evade the original intent of Congress "to arrest the creation * * * of monopolies in their incipiency."

Since 1945 companion bills designed to remedy this outstanding defect in the law have regularly been introduced in the Senate and House of Representatives by Senator Joseph C. O'Mahoney and Representative Estes Kefauver; twice, that is, in both the Seventy-ninth (Democratic) and the Eightieth (Republican) Congresses, the House bill has received the approval of a subcommittee of the House Judiciary Committee; twice it has been approved by the full House Judiciary Committee; and twice it has failed to emerge from the House Rules Committee. In the Eightieth Congress the Senate bill was approved on May 17, 1948, by a subcommittee of the Senate Judiciary Committee, headed by Senator William Langer. But, like the House bill, the Senate bill has never reached the floor for debate.

It is the purpose of this report not merely to add one more to the long list of recommendations made by the Commission for the amendment of this part of the Clayton Act, but rather to bring together in one place the more important legal and economic considerations relating to the proposal and also to describe in some detail the character of the merger movement which has been under way since World War II. The present period of consolidation, acquisition, and merger is the fourth which has taken place in American industry since shortly before the turn of the century:

> Four distinct waves of mergers are discernible in the past half century. The first, from 1890 to 1904, was motivated both by the onslaught of mass production and by the drive for monopoly status * * * The second and extraordinary movement of the twenties was largely financial in origin, and was inspired by the opportunities for promoters' profits in the capitalization of increased assets and of intangible values realized through the sale of new securities * * * A third merger movement, during the late thirties, was activated principally by the desire for marketing outlets and distributive economies * * * while a fourth, now pending, seems encouraged by the accumulation of large wartime working capital, by the unbalanced activities of

many companies, and by the desire to achieve a strong strategic position before the return to a buyers' market.[1]

With this over-all or summary report, with the Commission's report of March 7, 1947, on "The Present Trend of Corporate Mergers and Acquisitions," with the two printed volumes of hearings before the subcommittee of the House Judiciary Committee,[2] with the approximately 700 typewritten pages of transcript of hearings before the subcommittee of the Senate Judiciary Committee, with two printed reports of the House Judiciary Committee,[3] with the material presented before the Temporary National Economic Committee in the form of printed hearings and monographs, and with the Commission's own printed reports and recommendations on the matter going back nearly a quarter of a century, the record on the proposed amendment may now be said to be fairly complete.

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[1] Yale Law Journal, "Corporate Consolidation and the Concentration of Economic Power: Proposals for Revitalization of Section 7 of the Clayton Act," February 1948, p. 614.

[2] 79th Cong., 1st sess., Hearings on H. R. 2357, "To Amend Sections 7 and 11 of the Clayton Act;" 80th Cong., 1st sess., Hearings on H. R. 515, "To Amend Sections 7 and 11 of the Clayton Act."

[3] 79th Cong., 2d sess., Report No. 1820, "To Accompany H. R. 5535", March 26, 1946; 80th Cong., 1st sess., Report No. 596, "To Accompany H. R. 3736", June 17, 1947.

FEDERAL TRADE COMMISSION

THE MERGER MOVEMENT: A SUMMARY REPORT

Part I. GENERAL ASPECTS OF THE CURRENT MERGER MOVEMENT

LEGAL HISTORY

Section 7 of the Clayton Act prohibits corporate acquisitions which substantially lessen competition between the acquiring and acquired firms or restrains commerce in any section or community or tend to create a monopoly.[1] Yet the law, as it now stands, can readily be evaded by one of two means. Under the first alternative, the acquiring company may dispense entirely with the acquisition of stock, confining its purchase to assets. There has never been any doubt that such acquisitions of assets, where stock is not involved, are perfectly legal under the Clayton Act and cannot be reached by the Commission. It is for this very reason that many large corporations have adopted the deliberate policy of purchasing assets whenever interstate commerce (and thus the Federal law) is involved, and of making stock acquisitions only when the transaction is confined within the borders of a single State and has no effect on interstate commerce.

Under the other alternative, the acquiring company may buy the stock first. Then, if the Commission takes action against the acquisition, the company may follow this purchase with the acquisition of assets *before* the Commission can enter its order of divestiture. This route of avoidance is important only in those relatively few cases in which acquisitions of assets are not feasible unless the stock can be purchased first; and it is only in connection with this second route that legal controversy has arisen.

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[1] Specifically, sec. 7 provides:

"That no corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital of another corporation engaged also in commerce, where the effect of such acquisition may be to substantially lessen competition between the corporation whose stock is so acquired and the corporation making the acquisition, or to restrain such commerce in any section or community, or tend to create a monopoly of any line of commerce.

"No corporation shall acquire, directly or indirectly, the whole or any part of the stock or other share capital of two or more corporations engaged in commerce where the effect of such acquisitions, or the use of such stock by the voting or granting of proxies or otherwise, may be to substantially lessen competition between such corporations, or any of them, whose stock or other share capital is so acquired, or restrain such commerce in any section or community or tend to create a monopoly of any line of commerce."

Sec. 11 provides, in substance, that if after a hearing the Federal Trade Commission finds that sec. 7 has been violated, the Commission shall issue a cease and desist order and direct the divestment of the stock held.

The question may be asked why Congress did not foresee these potential defects in the law when it originally passed the Clayton Act in 1914. The answer is to be found in the nature of the great consolidation movement of 1897–1905, which formed the economic background behind the passage of the Clayton Act. It is a historical fact that during this period, which witnessed the birth of such huge corporations as the United States Steel Corp., most mergers were effected through the purchase of stock. This predominance of stock acquisitions was based on solid economic reasons. In the first place, it is much easier to purchase stock than assets. This is especially true in the case of holding companies, which mushroomed during this early movement, since the holding company can readily exchange some of its shares for the stock of the company to be absorbed. In the second place, stock acquisitions are peculiarly suitable in any era which is characterized by the flotation of enormous amounts of watered stock. During the great "era of consolidation," ambitious promoters frequently capitalized the new combines at substantially more than their intrinsic worth and used the watered stock to buy off the owners of the separate companies. The greater the amount of watered stock, the easier it was to absorb companies through the means of stock transfers.

That acquisitions of stock were, indeed, the customary and prevailing method of absorbing competitors was forcibly brought out by Justice Harlan F. Stone, who, in a dissenting opinion involving this statute, observed that corporate mergers were "commonly" effected through stock acquisitions, that "only in rare instances" would a merger be successful without advance acquisition of working stock control, that such control was "the normal first step toward consolidation," that it was by that process that most consolidations had been brought about, that this was "the first and usual step" and that the statute therefore reached the evil of corporate mergers "in its most usual form by forbidding the first step."[2] Although industry, partly because of this very statute, no longer relies as heavily on stock acquisitions, Justice Stone's opinion was an accurate reflection of the business practices prevailing at that time.

The plain fact of the matter is that Congress simply did not foresee—nor could it reasonably be expected to foresee—the loophole implicit in the possibility of acquisitions of assets. It took action against the customary and prevalent form of combination. Its intent was quite clear. It wanted to stop the growth of monopoly. At the time, most members of Congress were convinced that, as a result of the decision of the Supreme Court in the Northern Securities case (1904) and the Standard Oil and American Tobacco dissolution suits (1911), the Government already had adequate powers under the Sherman Act to dissolve *existing* monopolies. But Congress wanted to go one step further and prevent the growth of monopoly—to nip it in the bud. In a report dated July 22, 1914, which accompanied the Clayton Act, the Senate Judiciary Committee said:

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[2] 291 U. S., 587, 600, 601.

> Broadly stated, the bill, in its treatment of unlawful restraints and monopolies, seeks to prohibit and make unlawful certain trade practices which, as a rule, singly and in themselves, are not covered by the Act of July 2, 1890 [the Sherman Act] or other existing antitrust acts and thus, by making these practices illegal, *to arrest the creation of trusts, conspiracies, and monopolies in their incipiency and before consummation.*[3]

This intent to stop the *growth* of monopoly is also evident from the congressional debates on the bill. Thus, Senator Walsh of Montana stated on the floor of the Senate: "It was intended [in this bill] to reach the practices that were not the practices of things that have developed into trusts and monopolies, but were practices of trade, which, *if persevered in and continued and developed, would eventually result in the creation of a monopoly or trust.*"[4]

Shortly after World War I, the Supreme Court itself gave expression to this point of view by referring to the "unsatisfactory results" of dissolving combinations under the Sherman Act, "so far as the purpose to maintain free competition was concerned," and in that connection said that "the Clayton Act sought to reach the agreements embraced in its sphere in their incipiency." It also said that "the Clayton Act, as its title and the history of its enactment shows, was intended to supplement the purpose and effect of other antitrust legislation, principally the Sherman Act of 1890."[5]

But the original intent of Congress was one thing and the present status of the law is quite another. As already noted, there has never been any doubt that the Commission lacks authority to take action against acquisitions of assets which do *not* involve any purchase of stock. But there has been an important area of controversy concerning those acquisitions of stock which are followed by purchases of assets. In the middle twenties, the Commission took action against a number of acquisitions of this type. In a decision which was handed down in 1926, the Supreme Court (with Justices Brandeis, Taft, Holmes, and Stone dissenting) held, in effect, that if the acquired stock is used to effect an absorption of the assets *before* the Commission can file its complaint, the Commission cannot order a divestiture of the assets.[6]

---

[3] Senate Committee on the Judiciary, S. Rept. No. 695, 63d Cong., 2d sess., July 22, 1914, to accompany H. R. 15657, p. 1. [Italics added.]

[4] 51 Congressional Record, p. 15820. [Italics added.]

[5] *Standard Fashion Co.* v. *Magrane-Houston Co.* (258 U. S. 356).

This phase of the situation was summarized by the Commission in the final report of its chain store investigation in December 1934 as follows:

> In a number of instances the fact that the section has no application to physical assets has led corporations to acquire stock in apparent violation of the section, vote the stock so as to accomplish merger of assets, and then claim they were entitled to retain the fruits of their unlawful stock transactions.
>
> The Commission instituted proceedings in three such cases and in the lower Federal courts succeeded in maintaining the theory in two of the cases that if the original stock acquisitions were unlawful any subsequent, ancillary acquisitions of the assets were also unlawful and might be reached by the Commission's order. When these three cases were taken to the Supreme Court they were argued and decided as one in 1926. In one case it happened that the corporation had not voted the stock so as to acquire the assets when the Commission filed its complaint. Under those circumstances the power of the Commission was sustained to order such divestiture of the stock as would prevent merger of the assets, the court stating that "the purpose which the lawmakers entertained might be wholly defeated if the stock could be used for securing the competitor's property" (*Federal Trade Commission* v. *Western Meat Co.*, 272 U. S. 554).
>
> In the other two cases it happened that the stock acquired was used to complete merger of the assets before the Commission filed its complaint. The court thereupon held, with four justices dissenting, that it was beyond the power of the Commission to order divestiture of the physical properties (*Thatcher Mfg. Co.* v. *Federal Trade Commission*, and *Swift & Co.* v. *Federal Trade Commission*, 272 U. S. 554).
>
> Since there is necessarily a lapse of time between the institution of the Commission's preliminary inquiry and its issuance of formal complant, offending corporations may readily use this time to acquire the physical assets of companies whose stock they have previously acquired in violation of law. As the Commission pointed out in its 1927 annual report, the effectiveness of the section to fulfill the purpose of Congress was materially lessened by these decisions. Subsequent decisions have further limited the scope of section 7.

The principal "subsequent decision" to which the annual report referred was the decision by the Supreme Court in the case of *Arrow-Hart and Hegeman Electric Co.* v. *Federal Trade Commission*, decided in March 1934. In that case the Commission had filed its complaint while the stock was in the hands of an acquiring holding company *before* it had been used to effect a merger of the physical assets of the two competing corporations. But while the complaint was pending, the holding company caused two new holding companies to be created, transferred the stock of one competing corporation to one of them and the stock of the other competing corporation to the other holding company, and then brought about a merger of the physical assets of the two companies. The Supreme Court, with four Justices dissenting (Justices Brandeis, Taft, Holmes, and Stone), held that the Commission's power was limited strictly to ordering a divestiture of the stock originally acquired, and that, in effect the Commission had no power to order a divestiture of assets, even though it had issued its complaint, but not concluded its case, before the merger of assets had been effected.

The majority opinion in the *Arrow-Hart and Hegeman* case conceded that the stock "had been acquired contrary to the Act," but stressed that it was no longer owned by the company when the Commission made its order. The four minority Justices rejected "the contention that an offender against the Clayton Act, properly brought before the Commission and subject to its orders, can evade its authority and defeat the statute by taking refuge behind a cleverly erected screen of corporate dummies."[7]

With this decision the Commission practically gave up hope of achieving effective results under the existing law. In its annual report of 1934 the Commission characterized the act as a "virtual nullity" and stated that it was an "easy matter" for corporations to avoid the original intent of the act.

This has been proved time and time again in cases where the Commission has moved against acquisitions of stock only to find that such acquisitions were quickly followed by purchases of assets. For example, in 1945 the Commission proceeded against P. Ballantine & Sons for buying the stock of an allegedly competing firm in Newark, N. J. But while hearings were in process, the counsel for the respondent announced that his firm had just acquired the assets of the other firm. Consequently, the Commission had no alternative but to dismiss the complaint.

Again, in 1946, the Commission proceeded against the Consolidated Grocers Corp. Through a number of stock acquisitions in competing corporations, that company had become the largest wholesale grocery in the country, with assets of $20,000,000 and annual sales of $100,000,000. It occupied an allegedly dominant position in the wholesale grocery trade in numerous important trade areas, including Chicago, Baltimore, and Canton, Ohio. The Commission issued its complaint in 1946, charging a violation of section 7. Again, while the case was being tried, the respondent corporation took title to the assets and dissolved the subsidiary corporations whose stock it had acquired. And, again, the Commission had no alternative but to dismiss the case, which it did in February 1947. It is this type of situation to which the Commission refers, when it states that attempting to enforce section 7 of the Clayton Act is like "chasing a vanishing will-o'-the-wisp."

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[6] *Federal Trade Commission* v. *Western Meat Co.; Thatcher Mfg. Co.* v. *Federal Trade Commission; Swift & Co.* v. *Federal Trade Commission* (272 U. S. 554; 1926).

[7] 291 U. S. 587, 599, 608.

Even if there should be a reversal of these 25-year-old decisions, the Commission could take action only against those asset acquisitions which were preceded by stock acquisitions. The possible reversal of the decisions would in no way give the Commission the power to prevent those acquisitions of assets which do not involve the transfer of stock. It has never been contended that the Commission, under any possible construction of section 7, has the power to prevent this latter type of acquisition. Yet, today, asset acquisitions are more important than stock acquisitions, constituting nearly 60 percent of all industrial acquisitions.[8] Moreover, with any reversal of the old decisions, this proportion would undoubtedly rise to 90 percent or thereabouts. Such a conclusion would seem to be indicated by the very ease with which acquisitions of assets can be made. Only in a relatively small number of cases, amounting to less than 10 percent of the total, is it absolutely essential, because of the size and complexity of the merger, to buy up the stock before the assets are acquired.[9] Thus it can be expected that if the decisions were reversed, business would stop making stock acquisitions—many of which might be held to be illegal—and rely almost exclusively on asset acquisitions not involving stock—all of which would remain perfectly legal under any decision of the Court. In short, to rely on the Court in this matter is merely to substitute what might be termed the "completely-by-assets" loophole for the "stock-first, assets-later" loophope. Such a substitution of loopholes can hardly be regarded as an adequate remedy for this outstanding defect in the law.

The apparent significance of section 7 has also been affected by a judicial interpretation of the test of competition therein. Under this interpretation, the language in the Clayton Act, which appears to make the legality of acquisitions depend upon the effect on competition between the acquiring and acquired companies, has come to have the same meaning as the language in the Sherman Act in which the legality depends upon the effect on competition generally.

Under the Sherman Act, an acquisition is unlawful if it creates a monopoly or constitutes an attempt to monopolize. Imminent monopoly may appear when one large concern acquires another, but it is unlikely to be perceived in a small acquisition by a large enterprise.

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[8] During the period 1939–44, the Federal Trade Commission found that asset acquisitions represented 58 percent of the total number of all industrial acquisitions.

[9] The Department of Justice made a fairly close analysis of most of the mergers and acquisitions which took place in manufacturing industries during 1946–47; out of the several hundred mergers examined, it found that in less than 10 percent of the cases was it essential for the acquiring company to buy the stock as a necessary step in securing the assets.

As a large concern grows through a series of such small acquisitions, its accretions of power are individually so minute as to make it difficult to use the Sherman Act test against them. At best, a Sherman Act case can be instituted only after a long course of conduct has made the goal of monopoly clearly apparent.

Where several large enterprises are extending their power by successive small acquisitions, the cumulative effect of their purchases may be to convert an industry from one of intense competition among many enterprises to one in which three or four large concerns produce the entire supply. This latter pattern (which economists call oligopoly) is likely to be characterized by avoidance of price competition and by respect on the part of each concern for the vested interests of its rivals. Nevertheless, in this transition it is improbable that the acquisitions will supply the basis for a Sherman Act case against any of the large enterprises.

Section 7 of the Clayton Act apparently provides an alternative means for coping with such problems where the method of acquisition is the purchase of stock. Under this section an acquisition is unlawful not only when it restricts commerce or tends to create a monopoly but also where its effect may be "to substantially lessen competition between the corporation whose stock is so acquired and the corporation making the acquisition," where, if the stock of two or more corporations is acquired, the effect may be "to substantially lessen competition between such corporations or any of them." Even acquisitions of relatively small concerns by relatively large ones are likely to have the effect of limiting competition between the concerns directly involved in the purchase. Thus the application of this test would be capable of checking the cumulative concentration of economic power where concentration takes place by means of acquisitions which are individually small. The courts, however, have so interpreted this language as to prevent it from being used to outlaw acquisitions where the effect on competition *generally* is not substantial.[10]

The full significance of this interpretation has not become apparent because of a number of factors, including: (1) the small number of cases to which it has been applied, and (2) the far greater importance of the assets or stock question as the critical issue involved in section 7.

IMPORTANCE OF THE AMENDMENT TO ANTITRUST POLICY

There are, of course, many underlying reasons for the passage of some appropriate act which will close the loophole that permits corporations to buy the assets of competitors. As the report of the House Judiciary Committee states, "The history of legislation previously adopted to prevent monopoly, the great increase in recent years of competition-destroying mergers, the damage to small business, the blighting of opportunity for our young people—all cry out for the enactment of legislation to stop the rising tide of monopoly." [11] But of all of these reasons, fundamental as they are, none is more important than the effect of the loophole on existing antitrust policy. Anything which seriously weakens the antitrust laws imperils the free-enterprise system. And, today, there is no greater internal threat to the antitrust laws and to the maintenance of the competitive system than this gap in the law which permits corporations to do by mergers and acquisitions that which they are specifically prohibited from doing as independent concerns.

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[10] *International Shoe Co.* v. *Federal Trade Commission* (291 U. S. 234).

The antitrust laws (the Sherman Act and the Federal Trade Commission Act) condemn attempts to control the market by means of mutual understanding or agreement among competitors; but if the same objective is achieved through the *purchase of physical property*, it is lawful in the absence of monopoly, and the antitrust agencies are powerless to act. The existence of the loophole thus places a premium upon the attainment of monopolistic ends by the completely final method of consolidation, as against the more vulnerable method of conspiracies among independent firms. In other words, the weaker, less effective, cooperative methods of eliminating competition are prohibited, but the permanent and more effective method of consolidation under a single management is permissible. Moreover, the more effective is the enforcement of the law against collusion among competitors, the greater is the incentive to achieve the same ends through purchase, consolidation and merger.

A few examples will serve to illustrate the way in which the existence of the loophole provides an escape from the present law and seriously weakens the Nation's entire antitrust policy. Of course, the desire to evade "the long arm of the law" against conspiracies may have been only one of the motives behind these mergers—or, indeed, may have been wholly absent—but the fact remains that the effect of achieving through mergers that which has been specifically forbidden by collusion, is the same, regardless of motives. In a recent address before the sixtieth annual convention of the American Economic Association, former Assistant Attorney General Wendell Berge cited the famous *Addyston Pipe and Steel* case [12] as a classic example of the way in which the antitrust laws can be evaded through mergers and consolidations. That case, decided in 1899, held illegal a conspiracy among six companies to enhance prices by eliminating

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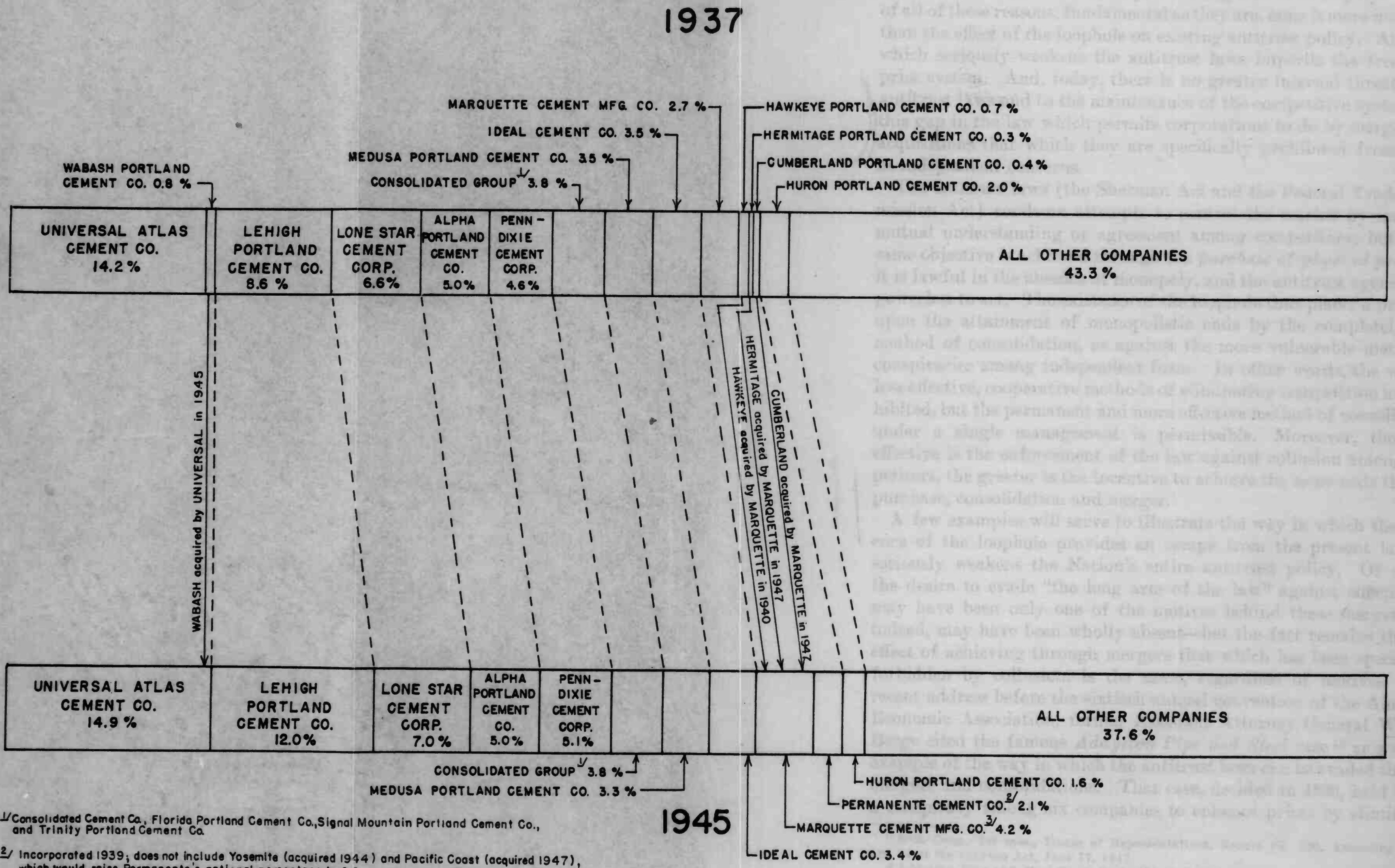
[11] 80th Cong., 1st sess., House of Representatives, Report No. 596, Amending secs. 7 and 11 of the Clayton Act, June 17, 1947.

[12] *Addyston Pipe and Steel Co. v. U. S.*, 175 U. S. 211 (1899).

Chart I

CONCENTRATION OF CEMENT CAPACITY, 1937—1945



1/ Consolidated Cement Co., Florida Portland Cement Co., Signal Mountain Portland Cement Co., and Trinity Portland Cement Co.

2/ Incorporated 1939; does not include Yosemite (acquired 1944) and Pacific Coast (acquired 1947), which would raise Permanente's national percentage to 2.6

3/ Although the Cumberland and Hermitage firms were not formally acquired until 1947, they are included as under Marquette in 1945, owing to inter-company stock interests which prevailed at that time.

competitive bidding in the sale of cast iron pipe. However, the defendants, who had thus been enjoined from carrying out their price-fixing conspiracy, subsequently merged into what is now the largest manufacturer and distributor of cast iron pressure pipe in the United States.

Obviously, competition was completely eliminated between the former conspirators as a result of the consolidation. What had been explicitly declared to be illegal under *separate* ownership thus became fully permissible under *consolidated* ownership. Only recently the Department of Justice filed a civil suit against the company, now known as United States Pipe and Foundry Co., and four other companies, alleging both restraint of trade and monopoly.[13]

More recent examples of the use of the merger-escape loophole are provided by such industries as cement, salt, white lead, fire extinguishers, and book paper.

Cement industry.—Climaxing an extensive study of the cement industry, including a report to Congress on its pricing systems, the Federal Trade Commission in 1937 issued a complaint [14] against nearly all members of the industry, specifically against those which belonged to the Cement Institute, a trade association. After voluminous testimony, the Commission, in 1943, issued a cease and desist order [15] which, among other things, forbade the respondent companies from "quoting or selling" cement according to a multiple basing-point formula.[16] Finally, on April 26, 1948, the Supreme Court, in a sweeping affirmation of the Commission's findings and order, ruled that the cement industry's long-established basing point system, resulting in identical delivered prices at any given destination, is a collusive price-fixing device which violates both the Federal Trade Commission Act and the Clayton Antitrust Act. The Court agreed with the Commission that this pricing system not only constitutes an "unfair method of competition," but also involves unlawful price discrimination.

When the Commission's complaint was issued in 1937, there existed a relatively high degree of concentration in the industry (see chart 1) with the 5 largest companies accounting for 39 percent of the Nation's cement producing capacity, and the 10 largest, 55 percent. Principally as a result of the mergers which have taken place since the Commission entered its order, the degree of concentration has been increased significantly. By 1945 the 5 largest companies controlled about 44 percent and the 10 largest over 60 percent of the industry's capacity. Moreover, because of the regional character of cement marketing (which results from the importance of freight in the delivered cost), the increase in concentration has been considerably greater in a number of important regions.

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[13] *U. S.* v. *U. S. Pipe & Foundry Co., et al.*, District of New Jersey, Civil Action 10772, filed October 23, 1947.

[14] Docket 3167; complaint dated July 2, 1937.

[15] Cement Institute, et al., order dated July 17, 1943.

[16] *Ibid.*, p. 4.

An outstanding acquisition occurred early in 1945, when Universal-Atlas Cement Co. (a subsidiary of United States Steel), the country's largest cement producer, acquired Wabash Portland Cement Co. of Osborne, Ohio. Chiefly as a result of this acquisition, Universal-Atlas increased its percentage of control of the industry from 14.2 percent in 1937 to 14.9 percent in 1947. But of even greater importance from a marketing point of view was the fact that Universal-Atlas secured thereby 16 percent of the important Ohio district's capacity.

The Marquette Cement Manufacturing Co., which was also a respondent to the FTC complaint, has acquired three other respondents—Hawkeye Cement Co., Des Moines, Iowa (1940); Hermitage Portland Cement Co., Nashville, Tenn. (1947); and Cumberland Portland Cement Co., Cowan, Tenn. (1947). Largely as a result of these acquisitions, Marquette's position in the industry has increased from 2.7 percent of the industry's capacity in 1937 to approximately 4.2 percent in 1947. Through these acquisitions, it has secured over 21 percent of the Iowa district's capacity and 23 percent of the Tennessee district's capacity.[17]

Two other respondents (not shown on the chart because they were not among the largest 10 producers), Pacific Portland Cement Co., Redwood Harbor, Calif., and Beaver Hill Portland Cement Co., Gold Mill, Oreg., merged in October 1940. One other acquisition not shown occurred in 1940 when Ideal Cement Co., Denver, Colo., acquired Gulf Portland Cement Co., Houston, Tex. Gulf Portland Cement Co. had not been named as a respondent. Although Ideal Cement Co. itself had not been named, several of its subsidiaries were respondents.

The action by the Supreme Court in upholding the Commission's order against the cement industry will obviously be nullified insofar as the relationships between the acquired and acquiring firms are concerned, since there will no longer be any occasion for the acquired

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[17] In addition, a new cement producer, Permanente Cement Co., organized in 1939 by the Kaiser interests, has acquired two companies which were respondents to the Commission's complaint. These were Yosemite Portland Cement Corp., Merced, Calif. (1944) and Pacific Coast Cement Co., Seattle, Wash. (1947). In the case of Yosemite, the plant was dismantled and the machinery resold. The Pacific Coast Cement Co., however, now operates as a Permanente unit. Partly as a result of these acquisitions, Permanente is now the tenth largest producer in the country and the largest in the west coast area.

firms to *conspire* with their new owners in order to put the basing point system, or any other pricing practice, into effect. Moreover, the argument has been advanced that unless the loophole in the Clayton Act is closed the Court's decision will give a further impetus to the merger movement; the New York Journal of Commerce has stated:

> The Supreme Court's sweeping condemnation of the basing point pricing system in the *Cement Institute* case provides one more powerful incentive for mergers in industry.
>
> Ever since the enactment of the Sherman Act, antitrust drives by the Government have given rise to recurrent waves of industrial consolidations * * *.
>
> Were industry forced to abandon generally the basing point system of pricing, plants located near consuming centers would gain a great advantage over those located in more distant places in industries whose products are bulky, and so involve heavy transpotration costs. One solution of the problem for concerns whose plants are not ideally located is to relocate capacity so as to have a larger volume of production near its customers. Mergers may provide the most practical and economical way to achieve this.[18]

Even if it is assumed, as the Journal of Commerce argues, that the Supreme Court's decision against conspiracies among individual firms will, in fact, promote mergers, this expected increase in merger activity could be averted in either one of two diametrically opposed ways: Either repeal or otherwise weaken the antitrust laws against conspiracies, or plug the loophole in the Clayton Act, making it an effective barrier against merger activity. The Journal of Commerce, as well as other business sources, has suggested or openly recommended the former. The Federal Trade Commission continues to recommend the latter.

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[18] N. Y. Journal of Commerce, May 5, 1948, p. 4. The Journal in its editorial goes on
to state that "One objective of the antitrust laws is to foster small enterprise. Unless
applied and administered with great care, however, these laws have frequently had the
opposite effect of stimulating mergers in industry.

"Outlawing of the basing point system of pricing will have such an effect.

"This is one more strong reason why Congress should give immediate and thorough
study to the far-reaching implications of the Supreme Court's decision in the *Cement*
Institute case, to see what changes in the antitrust laws are desirable to limit the added
pressure for relocation and mergers within industry that is bound to result from this
momentous ruling of our highest court" (New York Journal of Commerce, May 5, 1948,
p. 4).

A more direct request for congressional action to weaken or eliminate the antitrust laws
insofar as they apply to the basing point system was voiced by Irving S. Olds, chairman
of the United States Steel Corp., a few days after the Supreme Court handed down its
decision against the basing point system in the cement industry. The New York Times of
April 30 stated: "If the decision of the Supreme Court of the United States against the
pricing method of the cement industry shall apply to the steel industry and all other
industries, marketing procedures in all lines of business will be so upset that the matter
'should receive the attention of Congress,' Irving S. Olds, chairman of the United States
Steel Corp., declared yesterday." On the same day the New York Journal of Commerce,
reporting on Mr. Old's statement, said: "Reviewing the serious impact of the Supreme
Court basing point decision, Mr. Olds said that industry was faced with two alternatives—
either to seek remedial legislation or to 'educate the Supreme Court.' "

Salt.—Another example of a merger of conspirators is provided by the salt industry. In September 1940 the Federal Trade Commission issued a complaint against salt producers and their organization, the Salt Producers Association. In November of the following year, the Commission ordered the association and its members to cease and desist from operating a conspiracy to fix prices, regulate production, exchange discount information, etc.[19]

Economic concentration in this industry has for years been relatively high. In 1935 the eight leading producers operated 31.7 percent of the mines and wells producing salt, employed 63 percent of the wage earners, and produced 61.6 percent of the total value of the industry's products.[20] As a result of recent acquisitions and mergers, the level of concentration in the industry has been materially increased. Subsequent to the Commission's complaint, the following known consolidations took place in the industry:

Acquiring company	Company acquired	Date of acquisition
Morton Salt Co	Worcester Salt Co., New York, N. Y	March 1943.
Do	Union Salt Co., Cleveland, Ohio	May 1944.
General Foods Corp.[1]	Colonial Salt Co., Akron, Ohio	August 1945.

[1] Not a respondent in FTC Docket No. 4320.

Both of the two largest producers in the industry—International Salt Co. and Morton Salt Co. (each operating principally in the northeast and Kansas and Louisiana regions, where most of the United States salt is produced)[21] have gradually increased their share of control over the industry. Although International has made no known acquisitions since 1922, Morton has been especially active since 1925. In the far west, Leslie Salt Co., formed in 1936, brought four companies under its control and in 1940 added another. In 1945 Leslie rated fourth among the United States producers of dry salt.[22]

White-lead industry.—In November 1944 the Commission issued a complaint against the members of the white-lead industry, charging price-fixing, monopoly, and discrimination. The white-lead industry is made up of two divisions—white lead-in-oil and dry white carbonate lead. According to the allegations the leading producers in each of

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[19] Salt Producers Association et al., Docket 4320.

[20] TNEC Monograph No. 27, p. 573.

[21] The States of Kansas, Louisiana, Michigan, New York, and Ohio produced about 82 percent of the United States total in 1945. See Minerals Yearbook, 1945.

[22] Hearings on H. R. 2357 before the House Subcommittee No. 3, 79th Cong., 1st sess., serial No. 8, pp. 238–43. Leslie Salt Co. was not a respondent in FTC Docket 4320.

these two branches, together with their approximate share of the industry's production before the war, are listed below:[23]

	Percent
White lead-in-oil:	
1. National Lead Co. (successor to National Lead Trust)	60
2. Eagle-Picher Co	20
3. International Smelting & Refining (subsidiary of Anaconda Copper Co.)	3.5
4. The Glidden Co	(1)
5. The Sherwin-Williams Co	(1)
Dry white carbonate lead:	
1. National Lead Co	50
2. International Smelting & Refining Co.[2]	14
3. Eagle-Picher Co	12
4. The Glidden Co	(1)
5. The Sherwin-Williams Co	(1)

[1] Produce only small percentage of white lead for the open market, using a great deal of their production for manufacture of ready-mixed paint.

[2] Produce at East Chicago, Ill., plant by a unique process of electrolysis.

During the summer of 1946, Eagle-Picher acquired the assets of International used in smelting and refining lead and producing white lead and white lead-in-oil at East Chicago. The effect of the acquisition upon the alleged distribution of production was to increase the size of the second largest producer and eliminate altogether the third largest leaving two concerns accounting for between 75 and 85 percent of the production and sale of both white lead and white lead-in-oil.

While the above are among the most recent cases of consolidations among respondents to FTC orders, similar examples can be found in numerous other industries. In the fire extinguisher industry, for instance, an order to cease and desist from conspiring to fix prices, to bid identically, etc., was issued in 1935 by the FTC against a number of companies.[24] Among those companies cited were the Fyr-Fyter Co. and the Buffalo Fire Appliance Corp. In 1946 the Fyr-Fyter Co. purchased the entire capital stock of the Buffalo Fire Appliance Corp.

Another example occurred in the book paper industry. An order to cease and desist from collectively fixing prices, using a zone price system, etc., was directed, in 1945, against the more important manufacturers of book paper in the United States.[25] Among the respondents were the Columbian Paper Co. and the Mead Corp., the latter being one of the largest firms in the industry. One year after the issuance of the order, the Mead Corp. acquired the entire capital stock of the Columbian Co. Previously, in 1938, Mead had acquired control of Dill & Collins, Inc., another respondent to the FTC order.

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[23] These figures are controverted issues in Docket 5253 which is pending for decision, and therefore their use as allegations should not indicate any prejudgment of the truth or falsity of the alleged facts by the Commission.

[24] Docket 2352.

[25] Allied Paper Mills et al., Docket 3760.

These various examples—and many more could be cited—underline the fundamental principle that any antitrust policy, to be effective, must prohibit the achievement of monopolistic ends, regardless of whether they are attained by collusive agreement among independent firms or by consolidation, acquisition and merger. To block off one of these two roads to monopoly, while leaving the other open, merely increases the traffic on the latter.

OBJECTIONS TO THE AMENDMENT

In the course of hearings before the House and Senate Judiciary Committees a number of objections were raised to the amendment of the Clayton Act. In the majority report on the bill, by Representative John Gwynne of Iowa, the House Judiciary Committee summarized these objections and presented a brief analysis of each of them. Because of the fact that some, if not all, of these objections are invariably raised whenever this amendment is proposed, that part of the report of the House Judiciary Committee containing the analysis of these objections is presented below:[26]

"V. Analysis of Opposition to H. R. 3736

"Opponents of this measure have urged the following objections:

"1. It would prevent a corporation in failing or bankrupt condition from selling its assets to its most likely buyer—to wit, a competitor.

"2. It would prohibit small corporations from merging in order to offer greater competition to large companies.

"3. It would increase bureaucratic control over all business.

"4. Recent decisions of the Supreme Court have rendered this proposed amendment unnecessary.

"OBJECTION NO. 1

"The argument that a corporation in bankrupt or failing condition might not be allowed to sell to a competitor has already been disposed of by the courts. It is well settled that the Clayton Act does not apply in bankruptcy or receivership cases. In the case of *International Shoe Co.* v. *Federal Trade Commission* (280 U. S. 290) the Supreme Court went much further, as is shown by the following excerpt from the decision:

> * * * a corporation with resources so depleted and the prospect of rehabilitation so remote that it faced the grave probability of a business failure with resulting loss to its stockholders and injury to the communities where its plants were operated, we hold that the purchase of its capital stock by a competitor (there being no other prospective purchaser), not with a purpose to lessen competition, but to facilitate the accumulated business of the purchaser and with the effect of mitigating seriously injurious consequences otherwise probable, is not in contemplation of law prejudicial to the public, and does not substantially (303) lessen competition or restrain commerce within the intent of the Clayton Act. To regard such a transaction as a violation of law, as this court suggested in *United States* v. *U. S. Steel Corp.* (251 U. S. 417, 446–447), would 'seem a distempered view of purchase and result.' See also *Press Association* v. *United States* (245 Fed. 91, 93–94) (Id. pp. 302–303).

"OBJECTION NO. 2

"The objection that the suggested amendment would prohibit small companies from merging has strangely enough been put forward by representatives of big business. This would seem almost like 'Greeks bearing gifts.'

"Incidentally, several small business associations interested in the welfare of small business and the maintenance of free enterprise testified very vigorously in support of this bill. No small business group appeared against it.

"There is no real basis for this objection.

"In the first place, the present language of section 7 as it relates to mergers by sale of stock is more restrictive than the language in the amended bill. Yet no case has been found where a small corporation had any difficulty or was criticized by the Federal Trade Commission for selling its business by selling its stock to another small corporation. The small corporations have not had to avoid the present language of section 7 by selling their assets in place of their stock, when they wanted to dispose of their business. Furthermore, the evidence shows that it is only in large acquisitions by large corporations, which would have a tendency to create a monopoly, where resort is had to the device of purchasing assets in lieu of capital stock when a merger is planned. Attention is also called to the list of acquisitions beginning on page 317 of the hearings. None of these involve small corporations selling to other small corporations.

"Furthermore, the Supreme Court and the Federal courts have not applied the present strict language of section 7, even in cases of stock acquisition, so as to prevent a small corporation from selling its business or of merging with another small business. The Supreme Court has only applied the present language of section 7, even in the case of stock acquisitions, to large transactions which would substantially lessen competition, or tend to create a monopoly. In the case of *International Shoe Company* v. *Federal Trade Commission* (291 U. S. 234), decided January 26, 1930, the International Shoe Co.

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[26] 80th Cong., 1st sess., Report to Accompany H. R. 3736, pp. 5–7.

having a Nation-wide business purchased the stock of McElwain Co., a smaller shoe company also having a Nation-wide business. As to a part of the business of the two corporations, they were not in direct competition. The Federal Trade Commission sought to order a divestiture of the stock and prevent the merger. The Supreme Court held that the merger was not of sufficient size or importance, even though there was some competition between the two corporations, to substantially lessen competition or to create a monopoly. The Court has this to say:

> Mere acquisition by one corporation of the stock of a competitor, even though it results in some lessening of competition, is not forbidden; the act deals only with such acquisitions as probably will result in lessening competition to a substantial degree, *Standard Fashion Co.* v. *Magrane-Houston Co.* (258 U. S. 346, 357); that is to say, to such a degree as will injuriously affect the public.

"See also *Federal Trade Commission* v. *Sinclair Co.* (261 U. S. 463).

"The Second Circuit Court of Appeals in the case of *Temple Anthracite Coal Co.* v. *Federal Trade Commission* (51 Fed. (2d) 656), in a case where one coal company had purchased several others in Kentucky, held that section 7 of the Clayton Act was not involved, and cited in addition to the *International Shoe Co.* case a decision of the Supreme Court in the case of *Standard Fashion Co.* v. *Magrane-Houston Co.* (258 U. S. 346). This is definitely the law of the land.

"The language in the amendment, it will be noted, follows closely the purpose of the Clayton Act as defined by the Supreme Court in the *International Shoe* case.

"OBJECTION NO. 3

"The argument that this amendment would increase bureaucratic control over all business was more properly directed at a provision of H. R. 4810 of the Seventy-ninth Congress, and not included in H. R. 3736. That provision would have required, in certain cases, the making of an application to the Federal Trade Commission for permission to acquire the property of another corporation. No such requirement is made here. The present law simply lays down a course of conduct to be followed in the purchase of assets just as existing law does with respect to capital stock.

"OBJECTION NO. 4

"The attention of the committee has been called to recent decisions of the Supreme Court, particularly the *American Tobacco Company* v. *United States* (328 U. S. 781), decided June 10, 1946. Opponents of H. R. 3736 say that, under the Sherman Act as now unanimously interpreted by the Supreme Court, any person, firm, or corporation, or group of them, can be dissolved, enjoined, and punished criminally if it or they have the power to raise prices or exclude competition, even though it or they may never exercise such power.

"If this be true, Congress, instead of amending the Clayton Act to cover the acquisition of assets, might well repeal that part of the law pertaining to capital stock. For according to the view above expressed, both are equally unnecessary.

"However beneficial these decisions may prove to be in the enforcement of the Sherman Act, we do not believe they solve the entire problem. Nor do they convince us that Congress should no longer rely on the Clayton Act or not make attempts to cure its obvious defects."

CURRENT TREND OF THE MERGER MOVEMENT

During the current period, 1940–47, more than 2,450[27] formerly independent manufacturing and mining companies have disappeared as a result of mergers and acquisitions. It should be emphasized that this is a minimum estimate since it is based upon a sample drawn principally from reports of acquisitions of the larger corporations, as published in the leading financial manuals. The asset value of these 2,450 firms amounted to $5.2 billion, or roughly 5.5 percent of the total of all manufacturing corporations in the country during the wartime year of 1943.

In the accompanying table these acquisitions are distributed by the industry of the acquiring company. As will be noted, by far the largest number of acquisitions have been made by firms in only three branches of manufacturing, namely, food and beverages, textiles and apparel, and chemicals (including drugs). Together, these three groups accounted for 36 percent of the total number of acquisitions. Other industries which were particularly active were nonelectrical machinery, petroleum, and transportation equipment. In the aggregate, these six major-industry groups accounted for approximately 59 percent of all the mergers and acquisitions for the entire period 1940–47.

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[27] Specifically, this total is based upon reports published by Moody's Investors Service and Standard & Poor's Corp. financial manuals. An additional 388 cases were included from the issues of Textile World, 1940–47. As an indication of the narrowness of the coverage of the financial manuals, especially in "small-business industries," only 28 percent of the total acquisitions in the textile industry from 1940–47 were reported in Moody's and Standard & Poor's manuals. The acquisitions in all cases are limited to purchases of either assets or of 50 percent or more stock control. The few instances of stock acquisitions representing less than 50-percent control mentioned in the text for illustrative purposes are not included in the statistical series.

Mergers and acquisitions of manufacturing and mining concerns, by industry, 1940–47

Industry of acquiring company	Total number of firms merged or acquired		Percen	
Nondurable goods industries, total		1,084		52.6
Food and kindred products		369		17.9
Food	270		13.1	
Beverages	99		4.8	
Tobacco manufactures		4		.2
Textiles and apparel		[1] 154		7.5
Paper and allied products		84		4.1
Printing and publishing		28		1.4
Chemicals		212		10.2
Drugs and medicines	83		4.0	
Other chemicals	129		6.2	
Petroleum and coal products		157		7.6
Rubber products		25		1.2
Leather products		19		.9
Miscellaneous manufacturing		32		1.6
Durable goods industries, total		803		38.9
Primary metals		134		6.5
Iron and steel (basic)	105		5.1	
Other primary metals	29		1.4	
Fabricated metals		107		5.2
Nonelectrical machinery		167		8.1
Electrical machinery		105		5.1
Transportation equipment		149		7.2
Professional and scientific instruments		27		1.3
Lumber and furniture		50		2.4
Stone, clay, and glass products		64		3.1
Other, total		175		8.5
Mining		71		3.4
Nonmanufacturing		104		5.1
Grand total		[1] 2,062		100.0

[1] Not including an additional 388 cases reported in Textile World, 1940–47, which would bring the total for textiles and apparel to 542 and the grand total to 2,450.

Source: Based on actions reported by Moody's Investors Service and Standard & Poor's Corp.

Most of the acquisitions in the current movement have taken place during the last 3 years. (See chart 2.) In this respect the present trend has closely followed the pattern established after World War I. Immediately at the end of both wars merger activity increased sharply, as can be seen in the accompanying chart. The post-World War I movement extended through 1919, 1920, and the early part of 1921, until it was interrupted by the postwar depression. Again in the middle twenties when prosperous conditions had returned, the trend took on new force, reaching all-time heights in 1928 and 1929.

In much the same manner, merger activity turned sharply upward with the end of World War II and has continued at a relatively high level through 1947. In the final quarter of 1947, more mergers and acquisitions were reported than in any fourth quarter—with the single exception of 1945—since 1930.[28]

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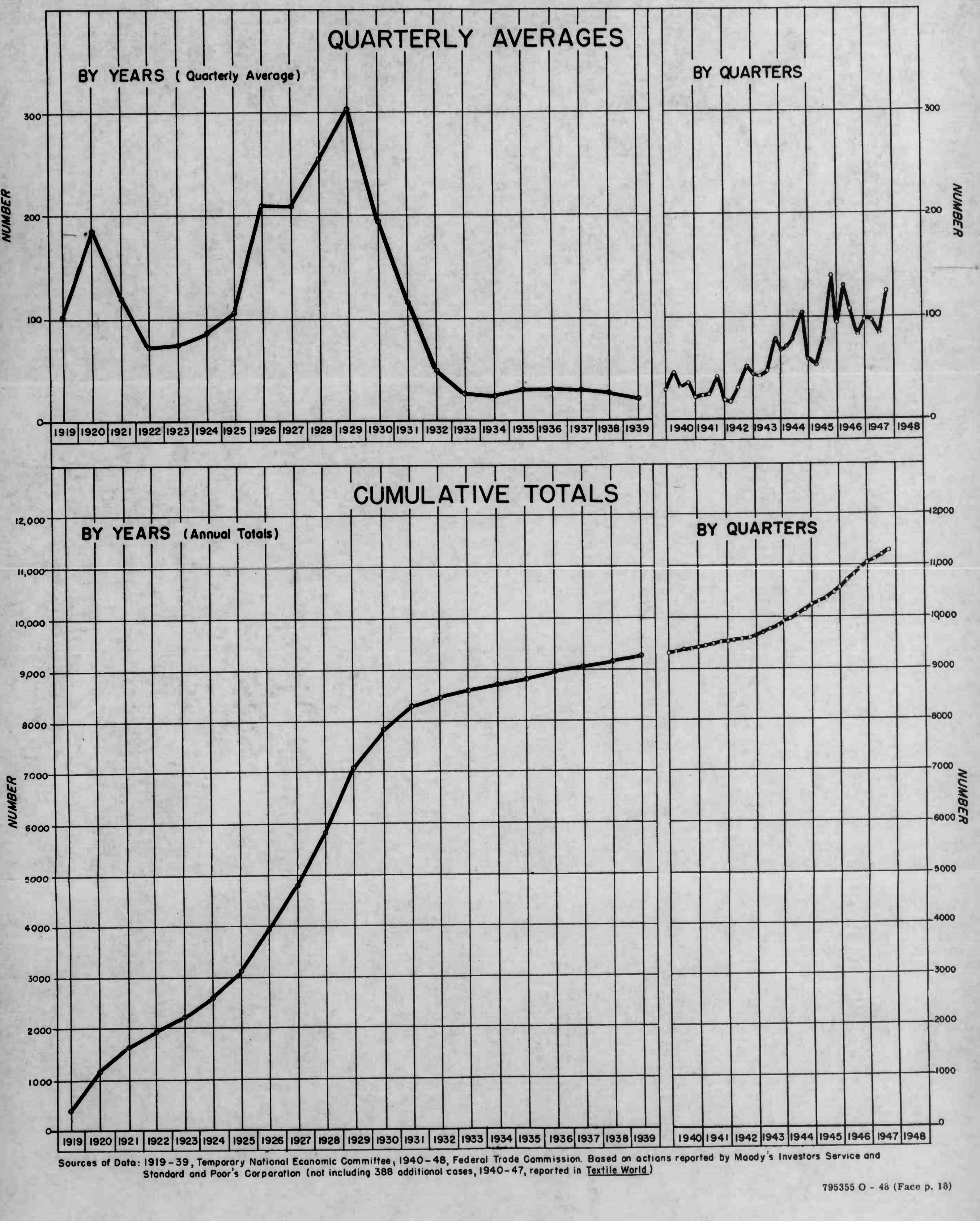
[28] It should be noted that, in order to provide a comparable series over long-run periods, the trends shown in chart 2 are based entirely upon acquisitions reported in the financial manuals, and do not include the additional cases found in Textile World. Similarly, in other charts covering the short-term period, 1940–47, the additional textile cases have been excluded in order to maintain comparability.

Chart 2

MERGERS AND ACQUISITIONS IN MANUFACTURING AND MINING, 1919—1948



Sources of Data: 1919-39, Temporary National Economic Committee, 1940-48, Federal Trade Commission. Based on actions reported by Moody's Investors Service and Standard and Poor's Corporation (not including 388 additional cases, 1940-47, reported in Textile World.)

1084
803
175
2062.

In appraising the over-all effect of mergers on economic concentration, it must be constantly borne in mind that they tend to become *cumulative over a period of time.* In other words, each year's mergers are superimposed upon a structure of economic concentration which has been built up over many past years.

Mergers and acquisitions in manufacturing and mining are shown on a cumulative basis in the lower part of Chart 2, covering the 29-year period 1919 through 1947. It will be noted that from 1919 through 1929 more than 7,000 independent firms disappeared as a result of mergers and acquisitions. And by the end of 1947, the total had reached nearly 11,500.

The prewar levels of concentration on which this current merger movement is being superimposed were carefully measured by the Temporary National Economic Committee in terms of individual products. As will readily be noted, concentration had already reached such extraordinarily high levels in the case of many of these individual products that there exists little, if any, room for further increases in concentration through mergers or any other means. As of 1937, the TNEC found that: 15%

One-third of the total value of all manufactured products was produced under conditions where the leading four producers of each individual product turned out from 75 to 100 percent of the value of product. No less than 57 percent of the value of product was produced under conditions where the largest four producers of each product turned out more than half of the total.

65%

There were 121 major products—each with an aggregate production value in 1937 of more than $10 million—in which more than three-fourths of the output was manufactured by 4 firms. In the case of no less than 41 of these, output was too centralized for publication of the figures, owing to regulations against disclosure.[29]

The concentration ratios are generally even higher in terms of *number* of products than in terms of value. Thus, for approximately three-fourths of the total number of products concentration ratios exceeded 50 percent, about half were above 75 percent, and nearly one-third exceeded 85 percent.[30] In other words, there was a better than three-to-one chance that if an individual product were picked at random, it would be found that only four producers turned out half of the nation's production of that item. The chances were one-to-one that the Big Four turned out more than 75 percent of the product, and one-to-two that they turned out 85 percent or more.

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[29] In many cases only a very few companies actually participated in the production of these products. For example, there were only four producers manufacturing inlaid linoleum, and alternating current watt-hour meters. Only five companies manufactured steel rails, car and locomotive wheels, lead oxide, and beer cans. Six companies were responsible for the country's output of corn and other syrups, and rolled and forged axles, and other products.

[30] TNEC Monograph No. 27, The Structure of Industry, pp. 416–418.

THE PROFITS-MERGER SPIRAL

High profits and intensive merger activity have historically gone hand in hand. This is true of the great consolidation movement of 1897–1905, the post-World War I movement, the period of the late twenties, and it is no less true at the present time. Not only do profits provide the financial wherewithal with which to effect mergers; but more than that, they exert a powerful pressure on business to expand, both internally by building new plant and equipment, and externally by absorbing existing concerns.

As profits reach high levels, part of them are characteristically plowed back into corporate surpluses, which then accumulate in the form of reserviors of unused working capital. In the absence of any government restriction, it is only to be expected that business will tend to seek outlets for these funds through the purchase of competitors, suppliers, distributors, or even organizations engaged in completely unrelated lines of activity. Traditionally, this profits-merger spiral has been checked only by an economic collapse or by the virtual elimination of effective competition.

From 1941 to 1944 corporate profits after taxes averaged nearly $10 billion, or about double the 1939 level. By 1946 they had mounted to $12.5 billion, or 2½ times the prewar level. And in 1947 they soared to approximately $17 billion, or nearly 3½ times the prewar level.

These high profits led, of course, to a sharp increase in funds available for the purchase of other companies, which is reflected by the trend of net working capital. In 1939 all corporations in the United States (excluding banks and insurance companies) held $24.5 billion of net working capital; by 1944 the total had reached $45.6 billion; and at the end of September 1947 it stood at a new peak of $60.4 billion.[31] Similarly, the net working capital held by the 78 largest listed manufacturing corporations (each with total assets over $100 million at the end of 1946) rose from $5.4 billion of net working capital in 1939 to $8.4 billion in 1944, and to $10.0 billion by June 30, 1947.[32]

The economic power residing in these reservoirs of net working capital may readily be visualized by a comparison of the net working capital held by the 78 giant manufacturing corporations with the total *asset* value of all manufacturing corporations which had assets of less than $1 million. As of June 30, 1947, there were some 50,000 manufacturing corporations of this size. The combined asset value of these smaller corporations, which, in number, represented more than 90 percent of *all* manufacturing corporations, amounted to just under $10 billion. By way of comparison, the net working capital of the 78 industrial giants exceeded $8 billion in 1944, and crossed the $10 billion line in 1947. Thus, as of the end of June 1947, the 78 giants had sufficient net working capital to buy up the assets of 90 percent of the number of all manufacturing corporations.

Moreover, these large corporations are in a highly liquid position. As of June 1947 the ratio of total current assets to total current liabilities was three to one. The cash and Government securities held by the 78 largest manufacturing corporations totaled more than their current liabilities. Thus, notwithstanding the increase in inventories which had occurred in recent years, these corporations would appear to have a substantial reserve available for the purchase of other companies.

As a bare minimum, these giant corporations could conceivably use their free cash to purchase other companies. As of June 1937, they held a total of $3.1 billion in cash and an additional $2.1 billion in United States Government securities. And since many acquisitions are made without payments of cash, these figures substantially understate the potential power of these large corporations to buy other firms.

Of course, these comparisons are only presented for illustrative purposes, since it is extremely unlikely that any corporation would ever use all or even most of its net working capital for the purpose of buying up other firms. Net working capital must be used to meet a variety of normal business expenses, including the purchase of raw materials, parts, and supplies of all kinds, meeting the pay roll, etc. Moreover, during recent years, corporations have been drawing heavily on their net working capital for the purpose of financing various forms of internal expansion, that is, the building of new plant, equipment, machinery, etc. Nevertheless, there can be little doubt that large corporations already possess sufficient funds to support a high level of merger activity for some time to come.

Whether or not business actually will use its immense funds for the purpose of buying up other firms will, of course, be influenced by many forces, among which is the gradual diminution in the number of industries that still constitute fertile fields for merger activity. Intensive merger activity can hardly be expected to take place in those industries which have already become so highly concentrated that there remain only a relatively few small competitors still available for purchase. It is difficult, for example, to conceive of any further widespread merger activity taking place in such industries as steel, rubber tires, copper, glass, and many other highly concentrated fields. Even in such former strongholds of small business as the food and textile industries, the opportunities for future mergers have declined sharply as a result of the numerous acquisitions which have taken place therein during the last 3 years.

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[31] Securities & Exchange Commission, Statistical Series Release No. 790, March 2, 1948, p. 2.

[32] SEC, "Working Capital of 1,169 Registered Corporations, December 1939–June 1947, January 30, 1948," p. 17.

Like Alexander the Great, the modern monopolist may have to bring his merger activities to a halt, owing simply to the imminent absence of "New Worlds to Conquer."

MERGERS AND ECONOMIC CONCENTRATION

As contrasted to European countries in which business combinations have readily taken the form of cartels and loose-knit association of independent businesses, such combinations in the United States have generally taken the form of the giant corporation, with its typical divorce between ownership and control, its tight centralization of power in the corporate management, its enormous financial resources, its community of interest with other corporate and financial groups, and its insatiable quest for greater and still greater economic power.

The rise of these great corporations has resulted from two types of expansion—internal and external growth. The former, which is sometimes referred to as natural growth, occurs through the building of new facilities or the expansion of existing properties financed out of retained earnings, loans, the sale of securities, or similar means. To the extent that such expansion takes place more rapidly in large than in small enterprises, economic concentration is obviously increased. External growth—with which this report is concerned—takes place through the combining together of existing firms by means of acquisitions, mergers, or consolidations, and through the creation of other types of combinations such as trusts and holding companies. To the extent that this process takes the form of the creation of new large enterprises out of existent smaller concerns or the buying up of small concerns by larger enterprises, concentration is, of course, increased.

There are probably few economic concepts about big business which are more widely held than the belief that the long-term increase in concentration has been due principally and primarily to internal expansion—to the building of new and bigger plants by large corporations; and that this, in turn, has been the inevitable result of the requirements of modern technology.

While it is impossible to measure the importance of internal versus external growth in industry as a whole, what little information there is on the subject suggests that the role of external expansion has been

unduly discounted; that, in fact, a very large part of the rise in economic concentration has been due to consolidations, acquisitions, and mergers. Such a conclusion is suggested by the following types of evidence.

(a) The origins of external growth in American industry can be traced back to the cruder forms of conspiracies among independent firms which flourished during the middle and latter part of the nineteenth century. In the years immediately following the Civil war, businessmen entered into "gentlemen's agreements" for the express purpose of deciding and agreeing upon prices. As it was soon found that prices could not be effectively regulated without also controlling production, the "gentlemen's agreements" were supplanted by "pools," in which each individual producer was formally allotted a specific share of the market. This, too, proved to be an inadequate means of controlling the market, and it was followed by the "trust," under which the individual firms retained some degree of autonomy but relinquished control over prices and production to the "trustees." But the trust fell victim of a variety of maladies: It was vigorously attacked under the common law and under State statutes, particularly by the State of Ohio; it had aroused intense public indignation since the rapacity of certain trustees had known no bounds; and finally, a more durable and lasting mechanism of control was presented in the form of the "holding company," whose illegal status under the common law had been removed by a statute enacted by the State of New Jersey. From that time on, external growth has centered in the creation or expansion of the modern, giant corporation.

It is often forgotten that many of the Nation's largest corporations were originally created as giant consolidations of numerous existing small firms. According to one of the leading students of the monopoly problem, it was the consolidation movement at the turn of the century that "* * * gave to American industry its characteristic twentieth century concentration of control."[33] The principal objective of this movement was to gain control of the market, not only through horizontal combinations of competitors, but also through combining into a vertical structure all of the stages of production from raw materials to finished goods. (For example, the United States Steel Corp. brought under one control not only the greater part of the iron and steel producing and rolling facilities, but also organizations extracting and transporting iron ore, coal, and other raw materials, from the ground up.) Among the present-day industrial giants which emerged during that period as great consolidations were: American Tobacco Co.

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[33] Paul T. Homan, "Trusts: Early Development," Encyclopaedia of Social Sciences, vol. XV, p. 114.

(1890), American Sugar Refining Co. (1891), General Electric Co. (1892), United States Rubber Co. (1892), United States Leather Co. (1893), Pittsburgh Plate Glass Co. (1895), New Jersey Zinc Co. (1897), National Biscuit Co. (1898), Amalgamated Copper Co. (1899), American Car & Foundry Co. (1899), American Woolen Co. (1899), International Paper Co. (1899), Pullman Co. (1899), International Silver Co. (1899), United Shoe Machinery Corp. (1899), American Brass Co. (1900), United States Steel Corp. (1901), American Can Co. (1901), Eastman Kodak Co. (1901), International Harvester Co. (1902), International Nickel Co. (1902), and E. I. du Pont de Nemours Powder Co. (1903). By 1904, the so-called "trusts" had in their hands 40 percent of all the manufacturing capital in the United States,[34] with a list of at least 30 products, ranging from asphalt to whiskey, under virtual monopoly control. Before the wave of industrial consolidation had died down, 26 corporations were said to have controlled 80 percent or more of the production in their respective fields; 57, 60 percent or more; and 78, 50 percent or more.[35]

(b) During the twenties, external expansion through the merger movement again reached a peak, the typical action generally involving one of the "leaders" of a major industry. Thus, many of the horizontal mergers were engineered by concerns, which, though not the largest in the industry, were still among its first three or four (e. g., in steel, Bethlehem Steel Corp. and Republic Steel Corp.; and in chemicals, Allied Chemical and Dye). Vertical expansions took on the character of intervention into medium-sized business sectors producing parts, components, etc., consumed in the mass-production industries (e. g., in the automobile industry), while the encroachment of large corporations into the fabricating fields (e. g., the steel and copper industries) was promoted to a limited extent. In some characteristically small business industries, which had been relatively untouched by mergers, new consolidations were formed and expanded to great prominence by the acquisition route (e. g., National Dairy Products, General Foods, and Standard Brands).

(c) A more concrete idea of the importance of external growth in the rise of big business can probably be gained from an examination of a specific industry. The Commission has made such a study for the major companies in the steel industry, an industry which constitutes the foundation of the Nation's immense metal-working economy and

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[34] Henry R. Seager and Charles A. Gulick, Jr., Trust and Corporation Problems (Harper & Bros., 1929), p. 61.

[35] John Moody, The Truth About the Trusts (New York, 1905), p. 487.

one which is often considered to be the "bellwether" of American enterprise.[36]

It should be noted, however, that the study, which covers the period 1915–45 (and is presented as appendix of this report), tends to understate the importance of external expansion, since it necessarily starts with certain original steel concerns which themselves were often the product of great consolidations of earlier companies, as in the case of United States Steel. Unfortunately, it is impossible with existent data to measure the extent to which the act of consolidating such earlier companies contributed to external growth.

Even with this important shortcoming, the results of the study clearly indicate that mergers and acquisitions have accounted for a substantial proportion of the over-all growth of the major steel companies. The estimates of the extent to which long-term growth (following the formation of the original companies) has been due to external expansion are as follows: Bethlehem, one-third; Republic, two-thirds; Jones & Laughlin, one-sixth; Youngstown Sheet & Tube, one-fourth; American Rolling Mill, one-fifth; Inland, one-tenth; Colorado Fuel & Iron, two-fifths; and United States Steel (which has made relatively few acquisitions since its original great consolidation) one-fourteenth. (For these eight companies taken together, the figure is approximately 25 percent.)

(d) The importance of external expansion in promoting concentration has never been more clearly revealed than in the acquisition movement that is taking place at the present time—a movement which is strengthening the position of big business in several ways. In the first place, several of the traditionally "small-business" industries have been affected. The two leading industries, in terms of number of acquisitions, have been textiles and apparel, and food and kindred products—both predominantly small business fields. Moreover, in certain small-business industries (notably steel drums, tight cooperage, and wines), virtually all or a substantial part of the industry has been taken over by big corporations. Finally, the outstanding

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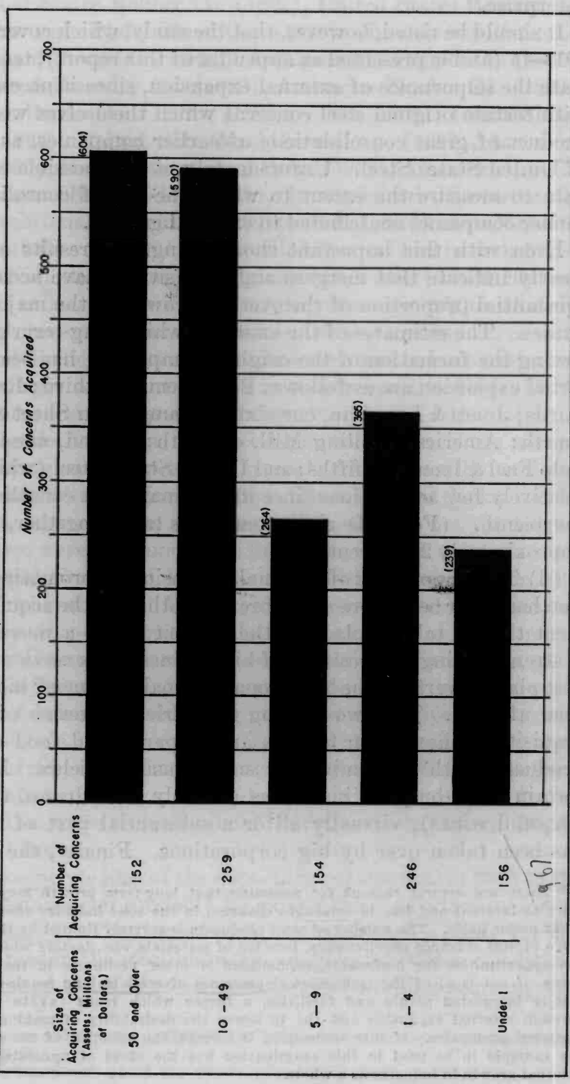
[36] There are several reasons for assuming that long-term growth may have been due more to internal and less to external expansion in the steel industry than in most of the other major fields. The number of steel producers is severely limited by the comparatively large capital entrance requirements, location of materials, etc., factors which tend to lessen the opportunities for horizontal acquisitions of other producers in the same industry. Many, if not most of the technological processes of steel making require contiguous and closely integrated plants and facilities, a factor which tends (a) to promote growth through internal expansion and (b) to lessen the desirability of making acquisitions of scattered properties. If this assumption is correct, the selection of the steel industry as the example to be used in this examination has the effect of understating the role of external growth in industry as a whole.

Chart 3 — SIZE OF ACQUIRING CONCERNS

ACQUISITIONS in MANUFACTURING and MINING, 1940–1947

By Size of Acquiring Concerns

Size of Acquiring Concerns (Assets: Millions of Dollars)	Number of Acquiring Concerns
50 and Over	152
10 – 49	259
5 – 9	154
1 – 4	246
Under 1	156



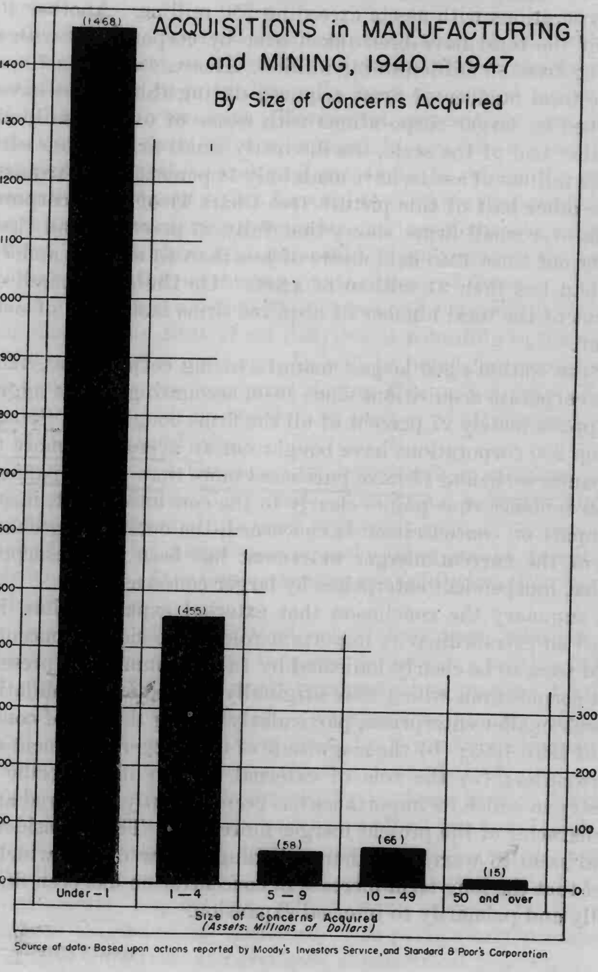
Source of data: Based upon actions reported by Moody's Investors Service, and Standard and Poor's Corporation.

Chart 4

SIZE OF CONCERNS ACQUIRED

ACQUISITIONS in MANUFACTURING and MINING, 1940 – 1947

By Size of Concerns Acquired



Source of data: Based upon actions reported by Moody's Investors Service, and Standard & Poor's Corporation characteristic of the movement has been that of large corporations buying out small companies.

Thus, Chart 3 shows that the preponderant number of firms have been acquired by the very largest corporations. Nearly one-third (30 percent) of the companies merged since 1940 have been absorbed by corporations with assets exceeding $50 million. Another 40 percent of the total have been taken over by corporations with assets ranging from $5 million to $49 million. Hence, more than 70 percent of the total number of firms acquired during this period have been absorbed by larger corporations with assets of over $5 million. At the other end of the scale, the distinctly small firms, those with less than $1 million of assets, have made only 11 percent of the acquisitions.

The other half of this picture (see Chart 4) of large corporations taking over small firms, shows that fully 93 percent of all the firms bought out since 1940 held assets of less than $5 million, and 71 percent had less than $1 million of assets. On the other hand, only 4 percent of the total number of acquired firms had assets of over $10 million.

Of the Nation's 200 largest manufacturing corporations, 123 have made corporate acquisitions since 1940, accounting, in the aggregate, for approximately 27 percent of all the firms bought up. Some 33 of the top 200 corporations have bought out an average of more than 5 companies each, and 13 have purchased more than 10 companies each.

The evidence thus points clearly to the conclusion that, insofar as its impact on concentration is concerned, the outstanding characteristic of the current merger movement has been the absorption of smaller, independent enterprises by larger concerns.

In summary the conclusion that external expansion has, indeed, played an extraordinarily important role in the rise of concentration would seem to be clearly indicated by (a) the number of present-day giant corporations which were originally created as consolidations of existent smaller enterprises, particularly during the era of consolidation of 1897–1905; (b) the magnitude of the merger movement during the twenties; (c) the role of external growth in a specific major industry in which its importance has been carefully measured and (d) the character of the present merger movement. These considerations would seem to warrant a thoroughgoing review of the widely held belief that the long-term increase in concentration has been due principally and primarily to internal expansion.

Part II. TYPES OF MERGER ACTIVITY

In the complex industrial society of today, mergers and acquisitions take a wide variety of different and sometimes completely opposite directions, which have traditionally been designated as horizontal, vertical, and conglomerate. Horizontal acquisitions are those in which the firms involved are engaged in roughly similar lines of production; vertical acquisitions are those in which the purchase represents a movement either forward toward the end-product stages or backward toward raw materials; and conglomerate acquisitions are those in which there is no discernible relationship in the nature of business between the purchasing and the acquired firms.

In Chart 5 the more than 2,000 mergers and acquisitions which have taken place during 1940–47 are distributed according to these various directions of merger activity. As will be noted, horizontal acquisitions have been more important during this period than all of the other types combined; no less than 62 percent of all acquisitions have been of the horizontal type.

Moreover, this predominance of horizontal acquisitions prevails throughout the industrial structure. As Chart 6 indicates, horizontal acquisitions represented the most important type of merger activity in each of the major manufacturing and mining groups, ranging from nearly 90 percent of the total in mining to slightly less than 50 percent in primary metals.

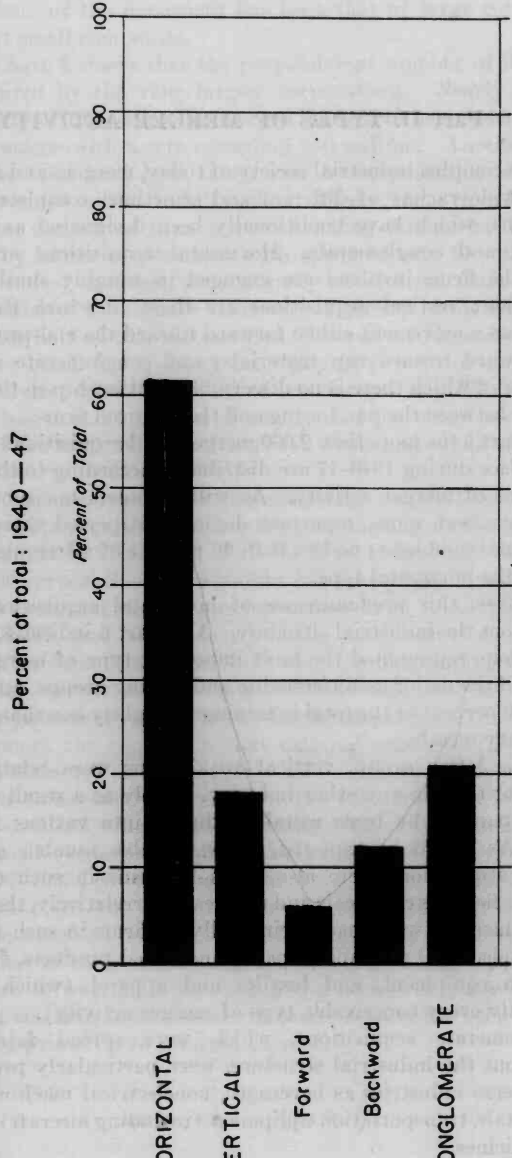
In this latter group, vertical acquisitions were relatively more important than in any other industry, largely as a result of the forward expansion by basic metal producers into various fabricating fields. As would be expected, a considerable number of forward vertical acquisitions were also made by firms in such other basic materials fields as chemicals and textiles. Correlatively, the backward vertical mergers were made principally by firms in such fabricating fields as electrical machinery, paper and allied products, food, transportation equipment, and textiles and apparel (which witnessed practically every conceivable type of merger activity).

Conglomerate acquisitions, which were spread fairly widely throughout the industrial structure, were particularly prominent in such diverse industries as beverages, nonelectrical machinery, fabricated metals, transportation equipment (including aircraft) and drugs and medicines.

Chart 5

DIRECTION OF MERGERS: MANUFACTURING AND MINING INDUSTRIES

Percent of total: 1940–47

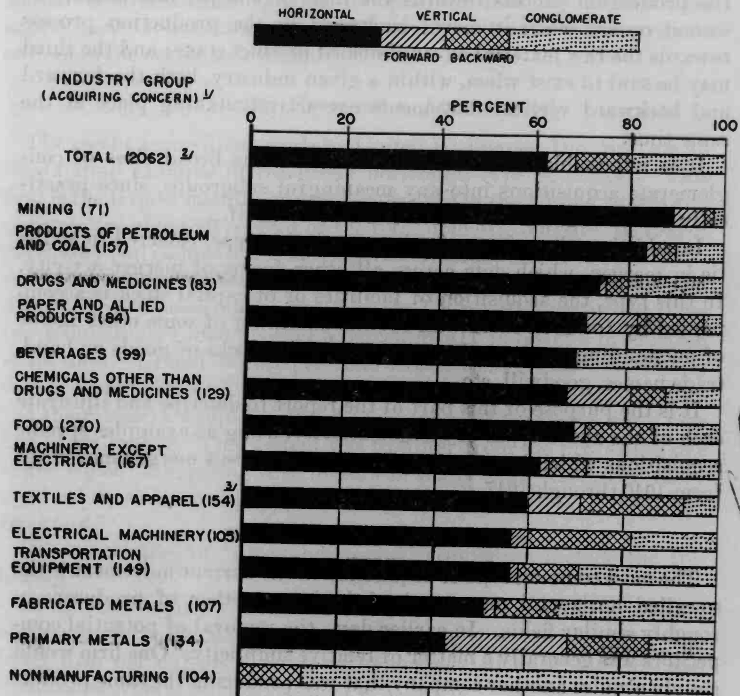


Source Based upon actions reported by Moody's Investors Service and Standard and Poor's Corporation

Chart 6

DIRECTION OF EXPANSION INDICATED BY MERGERS AND ACQUISITIONS OF MANUFACTURING AND MINING CONCERNS

CLASSIFIED BY INDUSTRY OF ACQUIRING CONCERN
JANUARY 1940 — DECEMBER 1947



[1] THE FIGURES IN PARENTHESES AFTER EACH INDUSTRY GROUP INDICATE THE NUMBER OF CONCERNS ACQUIRED

[2] INCLUDES GROUPS NOT SHOWN SEPARATELY IN CHART

[3] DOES NOT INCLUDE 388 ACQUISITIONS REPORTED IN TEXTILE WORLD

SOURCE: BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORP.

Within these broad categories of horizontal, vertical, and conglomerate there are a number of recognizable subgroups. Thus, horizontal mergers may be broken down into three such groups—direct, substitute products, and chain. The first takes place when the companies involved make essentially the same type of products;

the second occurs when the acquired company makes a product which can be substituted for that of the acquiring firm; and the third takes place when a company expands geographically through acquisitions in one locality after another, purchasing firms making generally similar products for local market consumption.

Similarly, vertical acquisitions can be broken down into three different subgroups—forward, backward, and two-way. The first, of course, takes place when the acquiring company moves forward in the production process towards the final or end-product stage; the second occurs when it moves backward in the production process towards the raw material or semifinished product stage; and the third may be said to exist when, within a given industry, both the forward and backward vertical movements are actively taking place at the same time.

It is impossible, however, to break down the broad class of conglomerate acquisitions into any meaningful subgroups, since practically every conglomerate action is a case by itself.

In addition, there is one final, recognizable type, referred to as the tie-in merger, which cuts across all other forms of merger activity. In this type, the acquisition of facilities or of capital stock is accompanied by (or even incidental to) the obtaining of some other factor of outstanding economic importance such as stocks of goods on hand, trade names, goodwill, etc.

It is the purpose of this part of the report to describe and illustrate each of the above types of merger activity, using as examples specific acquisitions which have taken place in the current merger movement from 1940 through 1947.

HORIZONTAL ACQUISITIONS

The most common type of acquisition in the current movement is the so-called horizontal merger, the bringing together of producers in roughly similar fields. In earlier days, the removal of potential competitors was generally a matter of relative simplicity. One firm would simply acquire another company that was producing the same product and selling in the same geographical area. But with the advent of modern technology, the removal of competitors has become a fairly complicated process. For one thing, technology keeps unfolding to the industrial world new products which in many cases represent not only acceptable but cheaper substitutes for established goods. In order to control the market, the producer of the old product must acquire the budding concerns which are turning out these new results of modern technology. Whether the established firm takes these new products off the market or launches into their production, the result is the same—the control of the newer products of modern technology by the older and generally larger enterprises. Similarly, the vast improvement in the means of transportation and communication has influenced the merger movement by (1) enhancing the attractiveness and feasibility of moving into other areas, and (2) enlarging the orbit in which troublesome competitors may be found. The resultant type of expansion may be termed chain or local market acquisitions. In this type of movement a company, through the acquisition of generally similar, localized firms, expands its operation into one locality after another, until it has achieved a predominant position in various regions or even in the nation as a whole.

(1) Direct Horizontal Acquisitions

The recent acquisitions made by United Wallpaper, Inc., provide an outstanding example of the direct horizontal type of merger. This firm is the largest manufacturer of wallpaper in the United States and accounts for about 26 percent of the total domestic output. In 1947 it purchased two competitors, the Superior Wallpaper Co. of Joliet, Ill., and the Missouri Valley Wallpaper Mill at North Kansas City, Mo. According to a press release issued by the United Wallpaper Co., these two acquisitions added another 5 percent of the industry's production to its total. United Wallpaper followed this merger by announcing that it would establish a "franchise plan," under which distributors and their dealers would be offered exclusive sales territories for a new line of wallpaper. This system was to differ from the prevailing one under which "competing distributors in many sales territories carry identical lines of wallpaper made by United and *other* manufacturers."[1]

Other examples of "direct horizontal" acquisition include the following:

In the *food* industry, the Pet Milk Co., one of the oldest producers of evaporated milk, acquired the Van Camp Milk Co. in 1944. The latter firm not only is a producer of evaporated milk, but operates in the same general territory as the Pet Milk Co.[2]

The Atlas Plywood Corp., which is reported to produce about 70 percent of the Nation's *plywood packing cases*,[3] in 1946 acquired the Marvil Package Co., a well-established manufacturer of fruit and vegetable baskets and trays. In the same year Atlas purchased the Plymouth Box and Panel Co. of Plymouth, N. C.

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[1] Wall Street Journal, May 4, 1948. [Italics added.]

[2] The Van Camp firm at one time was a subsidiary of the Van Camp Packing Co., but was independent at the time of its merger with Pet Milk Co. (Cf. New York Stock Exchange Registration Statement No. A–11852, dated July 31, 1944.)

[3] Standard & Poor's Miscellaneous Industrial Surveys, December 24, 1947, p. M7–1.

Talon, Inc., leading maker of *slide fasteners*, acquired the Wilson Fastener Corp. of Cleveland, Ohio, manufacturer of garment fasteners. A similar acquisition of a direct competitor was made by United-Carr Fastener Corp., a leading producer of snaps and other fasteners, which bought the Columbia Fastener Co. of Chicago, a manufacturer of dress fasteners.

Acquisitions of direct competitors have been rather numerous in various branches of the *chemicals* industry. Air Reduction Co., one of the two largest makers of oxygen and acetylene gases, and the largest supplier of carbon dioxide and dry ice in the United States, in 1941 acquired the Commercial Gas Co., an oxygen producer, and the Solid Carbonic Corp., a producer of carbon dioxide. These acquisitions were followed in 1945 by its purchase of the Home Oxygen Co., Inc., of Los Angeles. The National Cylinder Gas Co. was even more active, acquiring seven direct competitors in the manufacture of industrial and medicinal gases, and an eighth firm which is a source of raw materials (calcium carbide) used in the production of gas.

Paint manufacturers have also been active in acquiring competing companies. The Devoe & Raynolds Co., a large paint producer, in 1944 bought the James Bradford Co., a paint manufacturer, of Wilmington, Del. Since 1940 American-Marietta Co., manufacturer and distributor of paints, varnishes, etc., has acquired four paint manufacturing firms, two of which were multiplant companies.

In the field of *synthetic fabrics*, an outstanding merger in 1946 brought together Celanese Corp. of America (the country's largest producer of acetate yarn) and the Tubize Rayon Corp. (a leading producer of both viscose and acetate yarns and fabrics). The effect of this combination on competition in the rayon industry is enhanced by the fact that concentration was already substantial and because of technical problems and the scale of investment required, entry into the industry is difficult.

Even in the basic steel industry, which has already witnessed scores of horizontal mergers, a further important acquisition took place in 1942 when Jones & Laughlin Steel Corp. purchased the Otis Steel Co. of Cleveland, thereby enlarging its steel-making capacity by one million tons. Bethlehem Steel Corp., which, among other things, is the Nation's leading shipbuilder, expanded its predominance in that field by acquiring the Pennsylvania Shipyards, Inc., of Beaumont, Tex.

A number of substantial mergers of competitors appeared in the *aircraft* industry. In December 1941, Lockheed Aircraft Corp. merged with Vega Aircraft Corp. This merger was followed in 1943 by a merger of Consolidated Aircraft Corp. and Vultee Aircraft, Inc., both located in San Diego, forming a company which has been described

as "one of the largest and most diversified producers of aircraft." A further merger which was proposed between Consolidated-Vultee and Lockheed in 1946 was abandoned after the Department of Justice expressed its disapproval of the project.

In other fields, mergers of competitors included the combination of Thompson Products, Inc. (a leading producer of *engines and parts for the automobile and aircraft industries*) and International Piston Ring Co.; and the acquisition by National Battery Co. of the Storage Battery Division of Philco Radio Corp., to establish one of the largest replacement *storage battery* companies in the United States.

Finally, one of the largest mergers of recent years brought together two of the leading producers of *bituminous coal* in the United States. In November 1945, the Pittsburgh Coal Co., 43 percent of whose stock was owned by the Mellon interests, was merged with the Consolidation Coal Co., under control of the Hannas of Cleveland,[4] to form Pittsburgh-Consolidation Coal Co., the largest commercial producer of soft coal in the United States.[5] This merger not only brought together major competitors but also resulted in a link between two of the Nation's strongest financial interests. With this strong backing, Pitt-Consol has embarked on an extensive and costly research program into the development of synthetic fuels, a project in which it has had the active cooperation of the Standard Oil Co. (New Jersey), Standard Oil Co. of Indiana, and Texas Co.

(2) SUBSTITUTE PRODUCT ACQUISITIONS

An outstanding illustration of this type of acquisition is provided by the recent action of Continental Can Co. in acquiring all or part of some eight companies producing fiber and paper containers. Continental Can is the second largest tin can manufacturer in the United States, accounting for approximately 30 percent of the industry's total sales. Organized in 1913 by individuals formerly associated with the American Can organization,[6] Continental may attribute the lion's share of its growth to the acquisition of competitors. For example, during one of its most active merger periods, 1926–29, Continental Can absorbed no less than 15 other tin can producers, including the United States Can Co., then the third largest in the trade. Only the stock market crash in 1929 prevented it from merging with the Owens-Illinois Glass Co., then the fifth largest producer of tin cans and the leading producer of glass containers.

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[4] The Hannas had previously bought up the Rockefeller interest in Consolidation. According to Fortune (May 1947), as of December 31, 1946, the M. A. Hanna Co. owned 37.8 percent of the common stock and 20 percent of the 3½-percent debentures of Pittsburgh-Consolidation Coal.

[5] United States Steel Corp.'s captive mines produce a somewhat greater tonnage, but it is not available on the open market.

[6] Edwin Norton, who had headed the Norton Tin Can & Plate Co., was the chief negotiator in bringing most of the can companies of the country into the American Can Co. Although he had agreed not to go into the manufacture of tin cans again for 15 years or within 3,000 miles of Chicago, nothing was said as to whether his son could go into the business. Thus, A. W. Norton, in organizing Continental Can, brought in several American Can executives (notably Thomas G. Granwell, vice president of American Can, who brought to Continental the Campbell Soup account) to aid in running the business. (Cf. Fortune, April 1934, p. 80.)

Hardly a year has passed without a number of corporate acquisitions by Continental. But its movement into the paper and fiber can field has been particularly active in recent years. Beginning in 1942, Continental in quick succession picked up part or all of the can-making equipment of four firms located in Cincinnati, Boston, St. Louis, and Utica, N. Y.[7] and then bought up the entire capital stock of the Container Co. (Van Wert, Ohio). In 1943 Continental purchased the can-making facilities of Val Vita Food Products at Fullerton, Calif., and in the following year bought out Keystone Drum Co. (fiber drums), and Mono Service Co. (paper cups and containers). It also fortified its position by buying up two can-making machinery firms,[8] and then reinforced its supply sources by purchasing Gould Paper Co., a manufacturer of ground wood pulp and Filer Fiber Co., a producer of sulphate paper—raw materials used in the production of fiber cans. Meanwhile, it had picked up two producers of crown caps.[9] Finally, it purchased the Owens-Illinois Can Co., subsidiary of Owens-Illinois Glass Co. (but not the parent company).

Through these recent acquisitions, Continental has acted not only to insulate itself against direct competition with smaller firms in the tin can field, but also to ward off potential competition in the rapidly expanding fiber container business.

(3) Chain Acquisitions—Dairy Products

The past quarter of a century has witnessed the spread of what might be termed a type of movement which is most strikingly illustrated by the retail chain stores. However, the chain store idea of establishing centralized national, or at least regional, control over local units has by no means been confined to the field of retail trade. It has been adopted by many manufacturing industries, particularly by those in which the capital entrance requirements—owing to relatively simple technologies—are comparatively small and in which the market area is severely limited by the perishability of the products, their high freight costs, or similar factors. In short, this type of merger activity

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[7] These were Gardner-Richardson Co., Boothby Fiber Can Co., Square Star Can Co., and Fonda Container Co., respectively.

[8] Cameron Can Machinery Co. (Lyons Falls, N. Y.) and Fibre Can Machinery Corp. (Rutland, Vt.).

[9] Bond Manufacturing Corp., Inc., and Bamberger-Kraus & Co.

has been most pronounced in those very industries in which technology and market areas are most suited to *local*, independent, small business operations.

Typically, the firms which have followed this pattern have grown by buying up concerns making the same product in one or a few localities, strengthening their position in those localities by additional acquisitions, branching out to obtain control in other localities, consolidating their local acquisitions into broad regional or district organizations, bringing into the fold leading companies in the major regions, and, by this steady pattern of encroachment, becoming Nation-wide organizations with a substantial degree of control in the Nation as a whole, a much higher degree in many of the important regions, and a near-monopoly position in numerous individual localities.

It is in such fields as dairy products and bread that this type of merger activity has been pushed most vigorously. In fact, the growth of such outstanding Nation-wide companies as National Dairy Products Corp. and the Borden Co. could be likened to an acquisition itinerary, sweeping across the country from one large city to another, and gathering in its wake hundreds of companies serving small communities as well. During the 22-year period, 1924 through 1945, National Dairy Products acquired more than 400 concerns engaged in the processing and distribution of fluid milk, ice cream, cheese, butter, and condensed and evaporated milk. This corporation distributes anywhere from one-fifth to over half of the fluid milk in such important metropolitan areas as Boston, New York, Hartford, Philadelphia, Pittsburgh, Baltimore, and Washington.[10] It also accounts for about one-fifth of the Nation's total ice cream sales, and distributes as much as 40 to 50 percent of the ice cream in more than a dozen states.[11] In

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[10] For 1937 the figures were as follows:

	Percent		*Percent*
Washington, D. C	56. 0	Hartford, Conn	28. 8
Baltimore, Md	55. 0	New York, N. Y	25. 0
Pittsburgh, Pa	42. 5	Boston, Mass	20. 0
Philadelphia, Pa	32. 0		

(Cf. Hearings on H. R. 2357, "To Amend Sections 7 and 11 of the Clayton Act," Serial No. 8, May 23, 24, 25, and September 20, 1945, p. 256.)

[11] For 1937 the figures were as follows (*Ibid.*, p. 254):

	Percent of total		*Percent of total*
Connecticut	52. 4	Pennsylvania	32. 4
Vermont	51. 8	Massachusetts	30. 8
New Jersey	48. 9	New York	29. 7
North Carolina	47. 3	Rhode Island	24. 3
District of Columbia	46. 8	Alabama	23. 2
Virginia	41. 1	South Carolina	22. 0
Maine	40. 0	Florida	20. 4
New Hampshire	39. 5	Georgia	16. 8
Tennessee	36. 2	Maryland	6. 7

addition, it is the Nation's largest cheese manufacturer, a position which it achieved largely through the acquisition in 1930 of the Kraft-Phenix Cheese Co.

The Borden Co. likewise has a long history of expansion through mergers and acquisitions, dating back to its organization in 1857. Although condensed milk was originated by the founder of the company, Mr. Gale Borden (as a method of utilizing surplus milk during the peak season of the year), it was largely through the acquisition of competitors that the company became known around the turn of the century as the condensed milk trust.[12] Until the latter twenties, the manufacture and sale of condensed and evaporated milk remained as the core of Borden's activities. But beginning in 1927, Borden embarked on a broad and ambitious program of diversification and expansion through acquisitions. From that date through 1945, Borden Co. has bought no less than 531 formerly independent enterprises or groups of enterprises embracing all divisions of the dairy products industry, including fluid milk, ice cream, cheese, butter, condensed and evaporated milk, milk byproducts, and miscellaneous other products. Moreover, it has expanded into foreign fields as well, buying 21 foreign companies between 1928 and 1931. Although surpassed by National Dairy Products Corp. in the sale of fluid milk and in the manufacture of butter and cheese, Borden remains the country's largest producer of canned milk.

It is of interest to note that both of these companies have followed a deliberate policy of purchasing the capital *stock* of other companies where no interstate commerce or competition is involved and of using the alternative of acquiring *assets* where the acquisition might raise the question of a violation of section 7 of the Clayton Act.

The area covered by these companies is shown by the accompanying map (Chart 7) which shows for a prewar year, 1938, the location of milk and dairy product plants owned or controlled by the National Dairy Products Corp. With plants located in all but 6 of the 48 States, National Dairy operates in every part of the United States east of the Rocky Mountains, gathering and distributing fluid milk, and manufacturing butter, cheese, ice cream, evaporated milk, or other milk products. Similarly, the Borden Co. covers most of the country, distributing fluid milk in 19 States and manufacturing ice cream in 27 States. In addition, it operates 16 cheese plants in Wisconsin and others in Illinois, New York, Ohio, and Tennessee.[13]

In achieving such geographical coverage, National Dairy Products relied almost completely upon acquisitions. Each of the constituent

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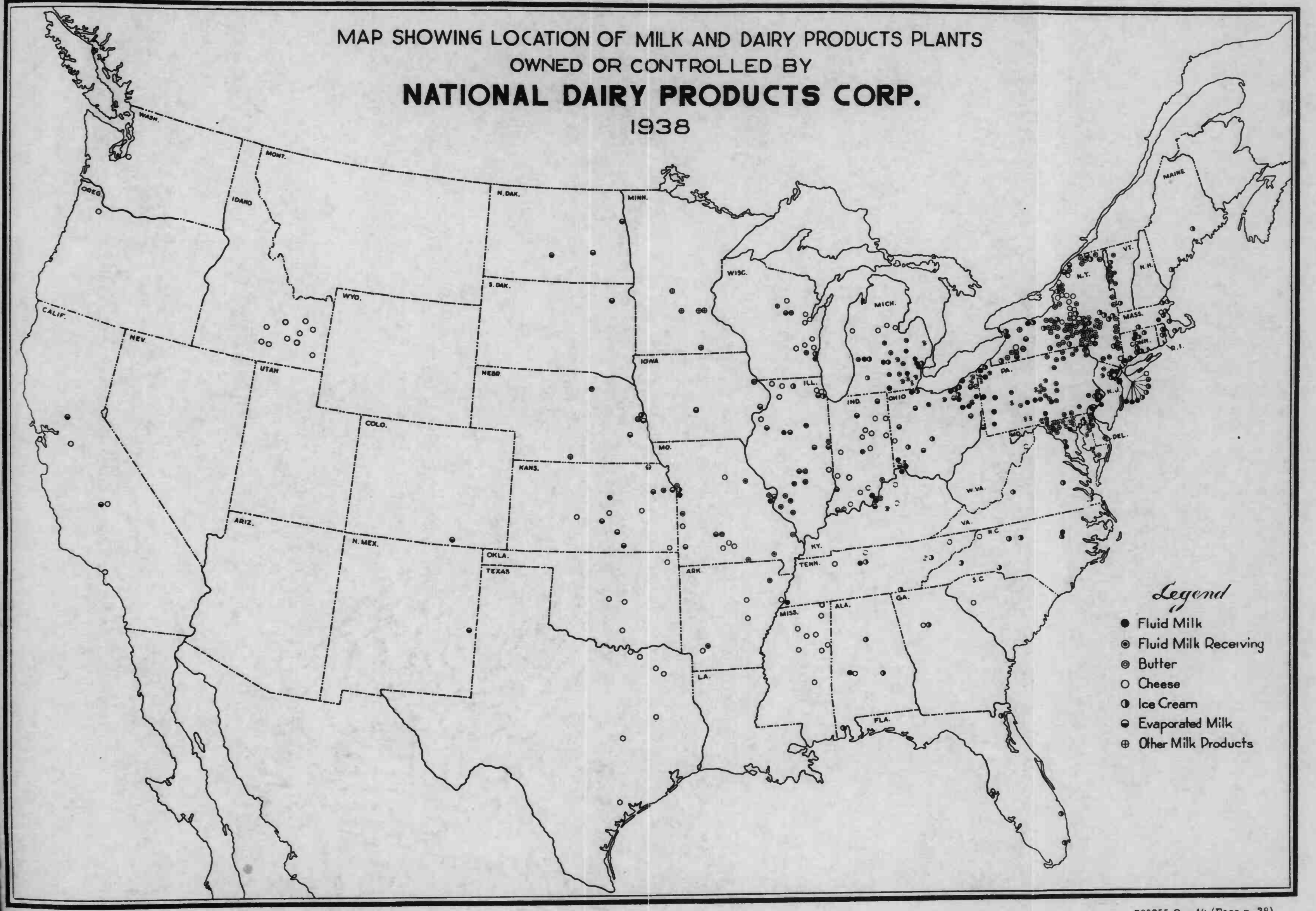
[12] John Moody, The Truth About the Trusts, Moody Publishing Co., 1904, p. 239.

[13] Borden also operates fluid milk, ice cream, and cheese plants in the Provinces of Ontario and Quebec in Canada.

Chart 7



MAP SHOWING LOCATION OF MILK AND DAIRY PRODUCTS PLANTS
OWNED OR CONTROLLED BY

NATIONAL DAIRY PRODUCTS CORP.

1938

WASH.
OREG.
CALIF.
IDAHO
MONT.
NEV.
UTAH
WYO.
ARIZ.
COLO.
N. MEX.
N. DAK.
S. DAK.
NEBR.
KANS.
OKLA.
TEXAS
MINN.
IOWA
MO.
ARK.
LA.
WISC.
ILL.
MISS.
MICH.
IND.
KY.
TENN.
ALA.
OHIO
W. VA.
VA.
N.C.
S.C.
GA.
FLA.
PA.
N.Y.
VT.
N.H.
MAINE
MASS.
CONN.
R.I.
N.J.
DEL.
MD.
Legend
● Fluid Milk
◉ Fluid Milk Receiving
⊚ Butter
○ Cheese
◐ Ice Cream
⊖ Evaporated Milk
⊕ Other Milk Products

parts of the original (1923) consolidation formed the basis for further expansion. The Reick-McJunkin Dairy Co. (itself the product of earlier mergers) represented an advantageous point of embarkation into the fluid-milk business, since it was not only the largest milk distributor in the Pittsburgh area, but also a well-rounded corporation, engaged in the manufacture and sale of such products as ice cream, butter, cheese, milk powder, condensed milk, casein, and milk sugar. The other half of the consolidation, Hydrox Corp., was an established Chicago ice-cream company, with a substantial business in soft drinks. In quick succession, National Dairy bought up leading fluid-milk distributors in the major eastern and southern cities. To the east, it first bought out the Supplee-Wills-Jones Milk Co., with one-third of the fluid-milk business in the Philadelphia metropolitan area (as well as a large business in ice cream and other dairy products). This was followed almost immediately by the purchase of the Sheffield Farms Co., Inc., on a par with the Borden Co. in the distribution of fluid milk in New York City. To the south, it bought up a large dairy company in Memphis, Tenn. (Clover Farm Dairy Corp.), and directly to the north it purchased a substantial distributor in Erie, Pa. (Erie County Milk Association). Three years later (in 1928) National Dairy moved into Cleveland to acquire the Telling-Belle Vernon Co., a large organization serving virtually all northern Ohio with both fluid milk and ice cream, and itself a combination of a number of local milk distributors. This was followed almost immediately by purchase of Akron Pure Milk Co., the largest milk distributor in Akron, Ohio.[14] At the peak of the movement, in 1929, National Dairy moved on to purchase leading distributors in Ohio,[15] Michigan (Detroit Creamery Co.),[16] Kentucky (Gray-Von Allman Sanitary Milk Co., and D. H. Ewing's & Sons Co., Inc.),[17] and Washington, D. C. (Chestnut Farms Dairy Co. and Chevy Chase Dairy, Inc.). These purchases were followed by a series of acquisitions which made National Dairy the dominant milk distributor in the Baltimore area.[18]

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[14] In subsequent years, both of these acquisitions were supplemented by the purchase of additional companies serving the same localities in competition with the National Dairy Products Corp.

[15] Specifically in Toledo (Ohio Clover Leaf Dairy Co.) and Youngstown (Youngstown Sanitary Milk Co. and its subsidiaries, W. R. Ruhlman & Sons, Inc., and Ohio Pure Milk Co.). Later, during 1929 and 1930, the assets of E. P. Kaufman, Mike Paphul, Charles H. Shellenburger, and Henry Dister, all independent milk distributors in Youngstown, were acquired and transferred to Youngstown Sanitary Milk Co.

[16] Later the corporation acquired the assets of Arctic Dairy Products Co., Detroit; Citizen's Dairy Co., Flint, Mich.; Bridgeman Dairy Co., also of Flint; and Barret Riedoni, an individual distributor of Dowagiac, Mich.; and transferred the assets of these concerns to Detroit Creamery Co. Subsequently, no less than eight additional dairy companies serving the Detroit area were acquired by National Dairy Products Corp.

[17] Later the ice-cream business of National Ice Cream Co. and Frozen Pure Ice Cream Co., both of Louisville, were acquired and transferred to the Ewing-Von Allman Dairy Co.

[18] These included Western Maryland Dairy Corp., Fairfield Farms, Inc., Miller's Dairy, Inc., and Acme Dairy.

Meanwhile, National Dairy had become the country's largest ice-cream manufacturer by acquiring a dozen major and numerous small producers in various parts of the country.[19]

A roughly similar pattern of geographical expansion was followed by the Borden Co. Having entered the fluid milk distribution business in Chicago, it tremendously enlarged its activities between 1928 and 1933 by purchasing, first, the important Wieland Dairy Co. and, second, the assets of no fewer than 21 other distributors of milk in the Chicago sales area; in addition it gained control over a substantial proportion of the ice-cream business in Chicago through the purchase of the Wieland Ice Cream Co. (owned by the same interests as the Wieland Dairy Co.).

For many years a leading distributor of milk in New York City, Borden acquired the Willow Brook Dairy Co. in 1930 and enormously enlarged its ice-cream business in the area by purchasing the assets of seven ice-cream manufacturers in New York City. In a similar manner it entered the Baltimore sales area by acquiring the assets of four ice-cream companies, purchased leading milk distributors in Milwaukee and Detroit, and then jumped to the Pacific coast to purchase some 14 milk distributors serving the San Francisco metropolitan area.

During the current merger movement both of these companies have continued to expand. Immediately prior to the war, National Dairy Products consolidated its position by moving into New England to acquire leading milk distributors of Boston and Hartford.[20] For the most part, however, its other acquisitions since 1940 have consisted of a large number of small cheese distributors, located in many parts of the country, plus a number of smaller ice cream and fluid milk firms.

The Borden Co., as is indicated by the accompanying chart (Chart 8), has not only continued to expand in the dairy products field but has

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[19] The most important of these (all acquired, incidentally, between 1928 and 1930) were the following: (1) General Ice Cream Corp., and its subsidiaries operating throughout the New England States and in New York State, except New York City; (2) Breyer Ice Cream Co., in New York City, New Jersey, Delaware, Pennsylvania, Maryland, and the District of Columbia; and (3) Southern Dairies, Inc. (subsidiary of Kraft-Phenix Cheese Corp.) and its subsidiaries in Maryland, District of Columbia, North Carolina, South Carolina, Georgia, Florida, Alabama, and Tennessee. National Dairy's initial step in the cheese industry was taken with the purchase of Breakstone Bros., Inc., of New York, in 1928, which was followed by the acquisition of Louis Feingold of the Bronx, N. Y., National Creamery Co. of Boston, and National Cheese Co. of Chicago. Kraft-Phenix Cheese Co., acquired in 1930, was in substantial competition with Breakstone Bros. and other National Dairy subsidiaries in the production and sale of cheese. In the butter industry, National Dairy made numerous acquisitions, outstanding among which were Sugar Creek Creamery Co. and National Butter Co. of Iowa (both with home offices in Danville, Ill.). The latter companies were also in substantial competition with Breakstone Bros.

[20] These were Whiting Milk Co., second largest distributor of fluid milk in Boston (actually under control of National Dairy Products since 1936 through a voting trust agreement) and Bryant & Chapman Co. of Hartford. Earlier (in 1930) National Dairy acquired the R. G. Miller & Sons Co., Inc., second largest distributor in Hartford.

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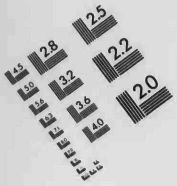
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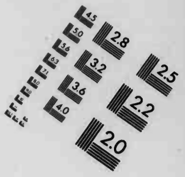
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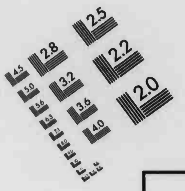
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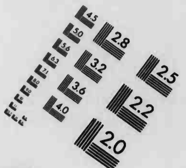
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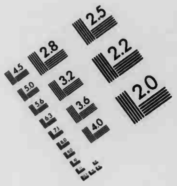
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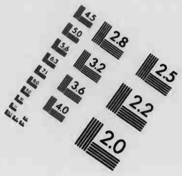
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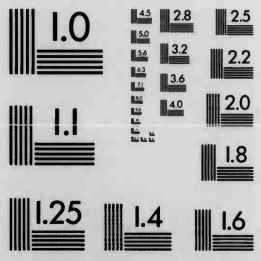
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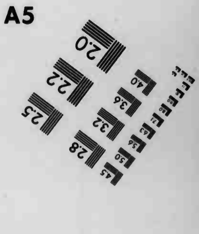
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PRECISION℠ RESOLUTION TARGETS

Century
A&P
1303 Geneva Avenue
St. Paul, MN 55119

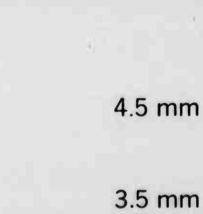
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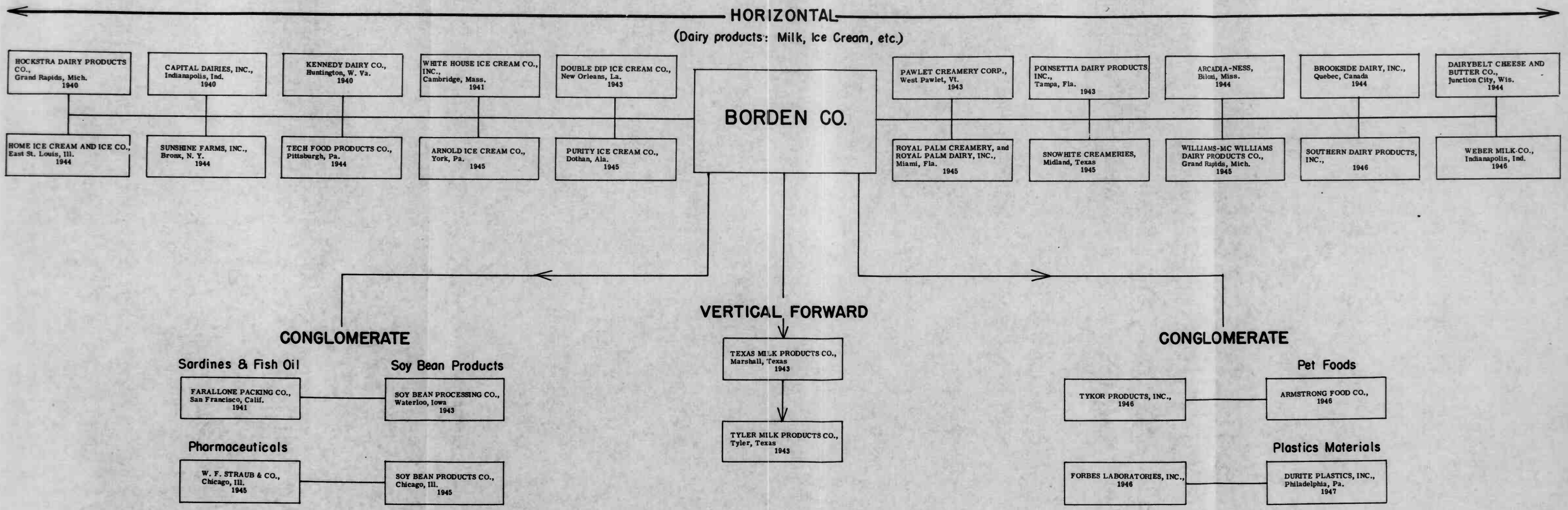
Chart 8

HORIZONTAL AND OTHER ACQUISITIONS OF THE BORDEN CO., 1940-47


HORIZONTAL
(Dairy products: Milk, Ice Cream, etc.)
HOCKSTRA DAIRY PRODUCTS CO., Grand Rapids, Mich. 1940
CAPITAL DAIRIES, INC., Indianapolis, Ind. 1940
KENNEDY DAIRY CO., Huntington, W. Va. 1940
WHITE HOUSE ICE CREAM CO., INC., Cambridge, Mass. 1941
DOUBLE DIP ICE CREAM CO., New Orleans, La. 1943
HOME ICE CREAM AND ICE CO., East St. Louis, Ill. 1944
SUNSHINE FARMS, INC., Bronx, N. Y. 1944
TECH FOOD PRODUCTS CO., Pittsburgh, Pa. 1944
ARNOLD ICE CREAM CO., York, Pa. 1945
PURITY ICE CREAM CO., Dothan, Ala. 1945
BORDEN CO.
PAWLET CREAMERY CORP., West Pawlet, Vt. 1943
POINSETTIA DAIRY PRODUCTS INC., Tampa, Fla. 1943
ARCADIA-NESS, Biloxi, Miss. 1944
BROOKSIDE DAIRY, INC., Quebec, Canada 1944
DAIRYBELT CHEESE AND BUTTER CO., Junction City, Wis. 1944
ROYAL PALM CREAMERY, and ROYAL PALM DAIRY, INC., Miami, Fla. 1945
SNOWHITE CREAMERIES, Midland, Texas 1945
WILLIAMS-MC WILLIAMS DAIRY PRODUCTS CO., Grand Rapids, Mich. 1945
SOUTHERN DAIRY PRODUCTS, INC., 1946
WEBER MILK CO., Indianapolis, Ind. 1946
CONGLOMERATE
Sardines & Fish Oil
FARALLONE PACKING CO., San Francisco, Calif. 1941
Soy Bean Products
SOY BEAN PROCESSING CO., Waterloo, Iowa 1943
Pharmaceuticals
W. F. STRAUB & CO., Chicago, Ill. 1945
SOY BEAN PRODUCTS CO., Chicago, Ill. 1945
VERTICAL FORWARD
TEXAS MILK PRODUCTS CO., Marshall, Texas 1943
TYLER MILK PRODUCTS CO., Tyler, Texas 1943
CONGLOMERATE
TYKOR PRODUCTS, INC., 1946
Pet Foods
ARMSTRONG FOOD CO., 1946
FORBES LABORATORIES, INC., 1946
Plastics Materials
DURITE PLASTICS, INC., Philadelphia, Pa. 1947

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

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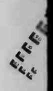

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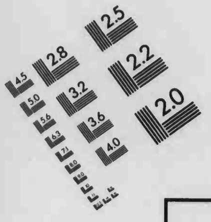
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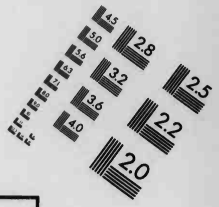
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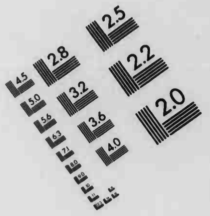
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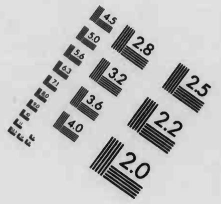
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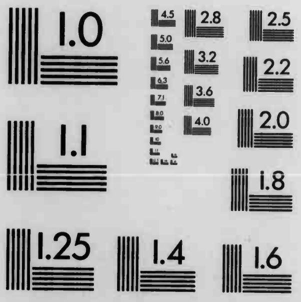
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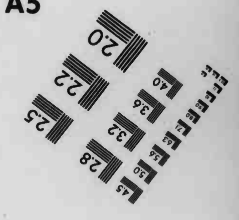
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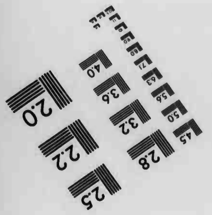
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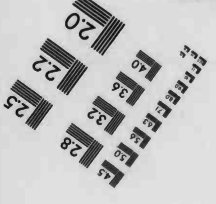
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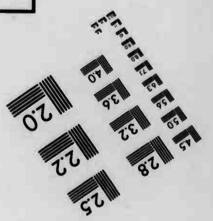
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PRECISION℠ RESOLUTION TARGETS

Century

A&P

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St. Paul, MN 55119

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made a number of conglomerate and forward-vertical acquisitions as well. Its major acquisitions in the dairy products field carried it deeper into such widely disparate geographical areas as Michigan, Indiana, West Virginia, Massachusetts, Louisiana, Vermont, Mississippi, Illinois, New York, Pennsylvania, and Texas. Among the most important of its recent acquisitions were Poinsettia Dairy Products, Inc., of Tampa, Fla., and the Royal Palms Creamery and the Royal Palms Dairy in Miami, Fla. As the chart indictes, Borden's conglomerate acquisitions have brought into the fold such unrelated products as sardines and fish oil, soybean products, pharmaceuticals, plastic materials, and pet foods.

VERTICAL ACQUISITIONS

(1) Forward Vertical Acquisitions—Steel

Few types of acquisitions are more important from the viewpoint of economic concentration than the expansion of raw material producers into the production of various types of fabricated or finished goods, since the raw material firms are generally much larger in size than the typical concern in the fabricated fields. In the current movement, this type of acquisition has been particularly conspicuous in the steel industry. Since World War II the Nation's largest steel producers have extended themselves into such fabricating fields as steel drums, bridge construction, oil-field equipment, wire products, prefabricated housing, as well as many others.

Although steel producers have been engaged in this practice of buying up their customers since the earliest days of the industry, this form of expansion remained fairly limited in scope until the 1930's. Prior to that time the energies of the steel producers in promoting mergers had largely been expended in bringing together other steel companies—i. e., horizontal mergers—and in acquiring their own sources of iron ore, coal, and related products—i. e., backward vertical acquisitions. In commenting on their apparent disinclination to enter the fabricating fields, one prominent writer on corporate finance stated in 1930 that:

> Vertical consolidation in the steel industry stopped with the raw material of other industries. The steel corporation sells its products to machine tool builders, building erectors, automobile manufacturers, manufacturers of agricultural machinery, railroads, public utilities, and a variety of other industries which use steel as raw material of their operations. The Steel Corp. has not, however, gone into these industries either to own or operate. It stops short at the line of rails, sheets, plates, billets, wire, and structural shapes.[21]

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[21] E. S. Mead, Corporation Finance, D. Appleton & Co., New York, 1930, p. 460.

While a great deal of attention has been given to the original formation of the United States Steel Corp. and its subsequent acquisitions of other steel companies, such as the Tennessee Coal, Iron & Railroad Co., its gradual intrusion into the fabricating fields has escaped general notice. As a matter of record, United States Steel extended itself, through acquisitions, into the manufacture of end-products as early as 1924 with the purchase of the Cyclone Fence Co. Four years later it acquired the Northwest Fence and Wire Works.

But it was not until 1930 that this forward movement really began to gather momentum. In that year the Corporation purchased (1) the Columbia Steel Corp., a large steel-producing plant on the west coast, and (2) the Oil Well Supply Co., one of the largest established organizations in its field. This latter firm, with offices located throughout the United States and in foreign countries, not only dealt in steel pipe, wire rope, and similar products, but also produced and handled a complete line of finished equipment and machinery used in developing and operating gas and oil properties.

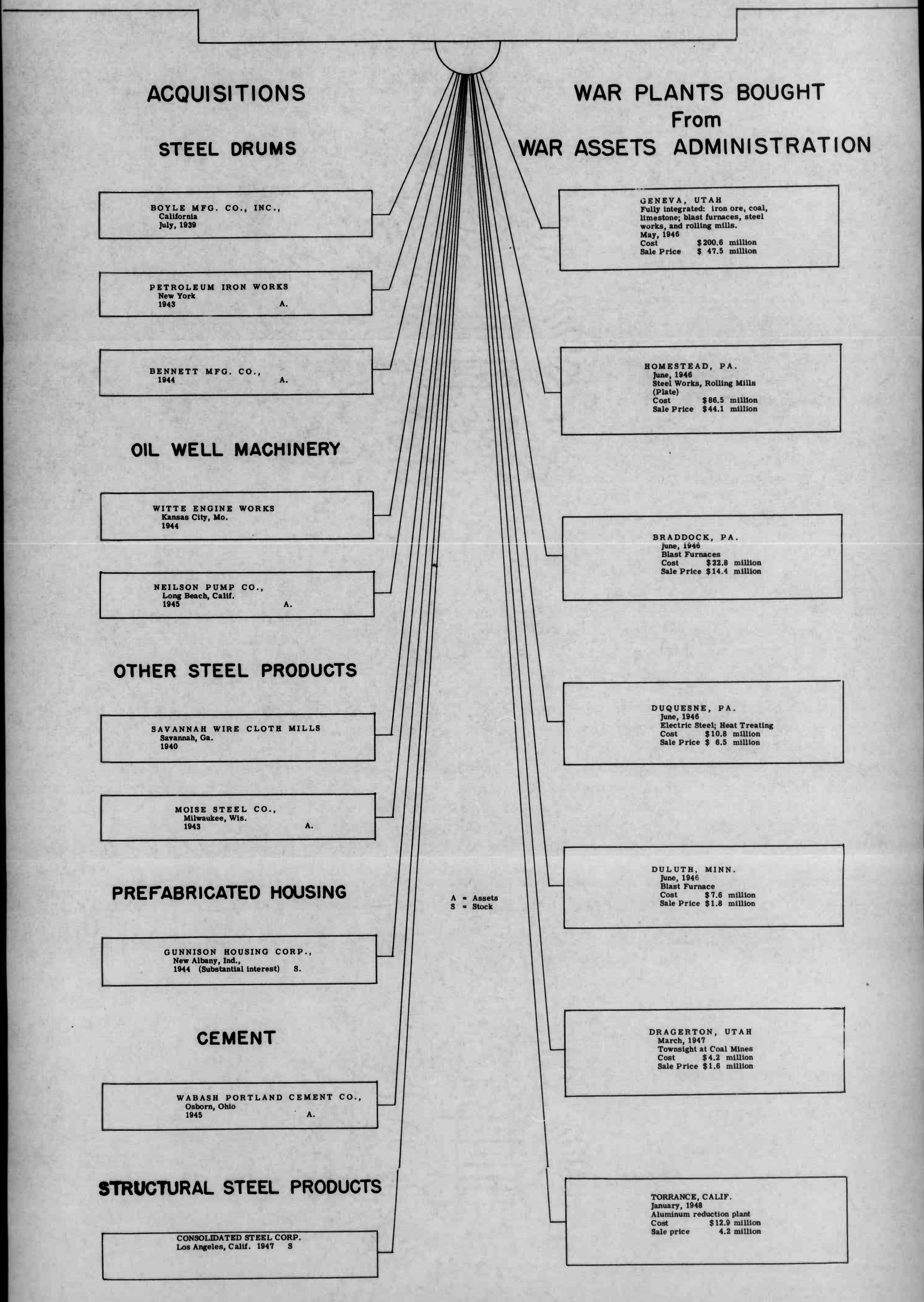
From fences and oil-well equipment the Corporation expanded its operations in bridge building, a field in which it had been engaged since 1901 through its subsidiary, the American Bridge Co. In 1936 it purchased the Virginia Bridge Co., formerly one of its principal customers for structural steel and other bridge-building materials. At about the same time, it also purchased the Gerrard Co., Inc., a manufacturer of machines for tying containers with wire.

Also in the thirties, the Corporation strengthened its position in the cement industry, a field in which it had operated since 1906, when it had taken over the Universal Portland Cement Co. With the acquisition of the Atlas Portland Cement Co. in 1930, United States Steel became the largest cement producer in the country, with over 14 percent of the Nation's capacity and considerably higher percentages in the regions where it maintained production facilities.

The almost continuous movement by United States Steel into fabricating fields in recent years is illustrated in the accompanying chart (Chart 9), which shows not only its acquisitions of other companies but also its purchases of surplus war plants. Among the companies which it has purchased since 1939 are three steel drum firms, another oil-well equipment company, a pump manufacturer, an additional cement company, a wire cloth fabricator, another small steel firm, and a prefabricated housing company. Finally, the Corporation acquired the Consolidated Steel Corp., a leading fabricator of structural steel, plates, boilers, towers, gates, oil-refining equipment, bridges, truck bodies, etc., with its principal offices located at Los Angeles. Itself a

Chart 9

ACQUISITIONS OF UNITED STATES STEEL CORP. SINCE 1939



ACQUISITIONS

STEEL DRUMS

BOYLE MFG. CO., INC.,
California
July, 1939

PETROLEUM IRON WORKS
New York
1943 A.

BENNETT MFG. CO.,
1944 A.

OIL WELL MACHINERY

WITTE ENGINE WORKS
Kansas City, Mo.
1944

NEILSON PUMP CO.,
Long Beach, Calif.
1945 A.

OTHER STEEL PRODUCTS

SAVANNAH WIRE CLOTH MILLS
Savannah, Ga.
1940

MOISE STEEL CO.,
Milwaukee, Wis.
1943 A.

PREFABRICATED HOUSING

GUNNISON HOUSING CORP.,
New Albany, Ind.,
1944 (Substantial interest) S.

CEMENT

WABASH PORTLAND CEMENT CO.,
Osborn, Ohio
1945 A.

STRUCTURAL STEEL PRODUCTS

CONSOLIDATED STEEL CORP.
Los Angeles, Calif. 1947 S

WAR PLANTS BOUGHT From WAR ASSETS ADMINISTRATION

GENEVA, UTAH
Fully integrated: iron ore, coal, limestone; blast furnaces, steel works, and rolling mills.
May, 1946
Cost $200.6 million
Sale Price $ 47.5 million

HOMESTEAD, PA.
June, 1946
Steel Works, Rolling Mills (Plate)
Cost $86.5 million
Sale Price $44.1 million

BRADDOCK, PA.
June, 1946
Blast Furnaces
Cost $22.8 million
Sale Price $14.4 million

DUQUESNE, PA.
June, 1946
Electric Steel; Heat Treating
Cost $10.8 million
Sale Price $ 6.5 million

DULUTH, MINN.
June, 1946
Blast Furnace
Cost $7.6 million
Sale Price $1.8 million

DRAGERTON, UTAH
March, 1947
Townsight at Coal Mines
Cost $4.2 million
Sale Price $1.6 million

TORRANCE, CALIF.
January, 1948
Aluminum reduction plant
Cost $12.9 million
Sale price 4.2 million

A = Assets
S = Stock

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

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product of numerous earlier mergers and consolidations (as its name implies), Consolidated Steel operated shipyards on the west coast and in Texas during the war. In the Pacific coast region it is the largest producer of pipe and is second only to United States Steel in the production of fabricated structural steel products.[22] The Department of Justice moved to prevent this acquisition, alleging that it constituted a violation of the Sherman Antitrust Act. Judge Richard C. Rodney, in the Delaware District Court, held against the Department, and was upheld by a five-to-four decision of the United States Supreme Court.[23]

United States Steel has not been the only basic steel producer to expand into the fabricating fields. Since its inception in 1904, Bethlehem Steel Corp. has been heavily engaged in at least one such activity, the shipbuilding industry. But as in the case of United States Steel, it was not until the early thirties that Bethlehem began a vigorous expansion into other fabricating fields.

The rise of Bethlehem Steel to the position of the second largest steel company has been marked by numerous mergers and acquisitions, few of which, however, were of the forward vertical type until 1930. Perhaps its most dramatic entry into the fabricating fields (aside from shipbuilding) occurred in 1931, with its purchase of the McClintic-Marshall Corp., a firm which was fully equipped for the construction of bridges, buildings, tanks, river barges, etc. Today, Bethlehem holds approximately 13.5 percent of the industry's ingot capacity; it is the largest fabricator and erector of structural steel, the leading shipbuilder in the country, and is clearly preponderant in the steel trade in much of the northeastern section of the United States.

Bethlehem's acquisition drive has been greatly accelerated since World War II; it has purchased 12 other companies and 8 surplus war plants. Included among these acquisitions are such fabricating companies as two steel drum firms (including the purchase of 28.9 percent of the stock of the extremely important Rheem Manufacturing

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[22] As an indication of the importance of Consolidated Steel Corp. in the production of pipe, as of April 30, 1947, the firm had a $90 million backlog of orders on its books. It produces 200,000 tons to 300,000 tons of large diameter pipe a year, which is as much as National Tube (United States Steel subsidiary) produces in the western region. In addition, Consolidated was the largest independent fabricator of plate on the West Coast. In terms of fabricated structural products, Consolidated units have approximately 11 percent of the sales in 11 Western States, compared with 13 percent for United States Steel Corp. and approximately 11 percent for Bethlehem Steel Corp.

[23] *U. S.* v. *Columbia Steel Co., No. 461* (Sup. Ct. June 7, 1948). In addition to its recent acquisitions of other companies, the Steel Corp. has also purchased a number of surplus war plants from the War Asets Administration, including the fully integrated Geneva steel plant, the steel works and rolling mill at Homestead, Pa., the blast furnaces at Braddock, Pa., the electric steel- and heat-treating facilities at Duquesne, Pa., blast-furnace equipment at Duluth, Minn., a townsite at the coal mines near Dragerton, Utah, and an aluminum reduction plant at Torrance, Calif.

Co.),[24] three concerns in the oil-well equipment field, two shipyards, a forge company, and a tank company.

Republic Steel Corp., third largest steel producer in the country and leading producer of alloys, owes by far the greater part of its growth to external expansion. The present Republic Steel Corp. emerged as a consolidation in 1930 of four major companies—Republic Iron and Steel, Bourne-Fuller Co., Donner Steel Co., Inc., and Central Alloy Steel Co. The program of consolidation was to have gone further to include Youngstown Sheet and Tube, an important factor in sheet, tin plate and pipe, and the Inland Steel Corp., second largest steel maker in the Chicago area and seventh largest in the country. That ambition, ardently championed by Cyrus S. Eaton, was thwarted, first by the intervention of Bethlehem in an attempt to merge with Youngstown, and second by the collapse of certain of Mr. Eaton's investment companies during the great depression.

Following Bethlehem's similar action by only one year, Republic entered the fabricating field on a large scale in 1937 with the purchase of the Niles Steel Products Co., one of the Nation's principal producers of steel containers.

But this was only a prelude. Since 1939 Republic's acquisitions in the fabricating fields have included a producer of steel drums, a manufacturer of wire and screen, a drawn steel company, a metal window firm, and a culvert company. In addition, Republic has moved backward into the raw materials field by acquiring two iron ore companies, two coal companies, and the blast furnace of a small company located in Troy, N. Y. While three of the four surplus properties which it acquired from the disposal agencies are of relatively minor importance, its purchase of a huge integrated surplus war plant in South Chicago, Ill., gives it the largest electric steel mill in the world. By obtaining this vast plant, which was built at a cost of $91 million (at wartime values) and sold to Republic for $35 million (payable over a period of 20 years), Republic has increased its position from the fourth to the largest electric steel producer in the Nation.[25]

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[24] In a letter to Iron Age (July 10, 1943, issue, p. 94) C. V. Coons, general sales manager of Rheem Manufacturing Co., stated that Bethlehem does not control his company. However, it is to be noted that Bethlehem owns 29 percent of Rheem's common stock, and, in addition, transferred to Rheem the ownership of its own steel drum plant at Bayonne, N. J., which it had purchased from the Atlas Steel Barrel Corp. in December 1943.

Rheem itself has recently acquired a number of other companies. Early in 1944 it purchased a large stock interest in the Platt-LePage Aircraft Co., a helicopter manufacturer, and also secured the right to use the latter company's designs and patents. Also in 1944, Rheem bought certain assets of Stokermatic Co., a manufacturer of automatic stokers and water heaters. In 1946, it purchased the small motors division of the Reuland Electric Co., and in January 1947 it purchased the Fraser Furnace Co., located in Stockton, Calif.

[25] Moreover, the capacity of the South Chicago plant is tremendous. Republic's electric steel capacity alone is now greater than the entire industry's prewar capacity. With any substantial decline in the demand for alloy steel, the smaller producers will face a serious problem in trying to hold any appreciable share of a declining market against this capacity of Republic.

Jones & Laughlin Steel Corp., second largest steel producer in the Pittsburgh area and fourth largest in the United States, traces its ancestry back to a partnership organization in 1850. The Corporation's operations are completely integrated; its coal properties are estimated to be capable of supplying all of the company's requirements for more than 50 years; and only about 20 percent of its iron-ore requirements are purchased from outside sources. The outstanding characteristic of the company's expansion program in recent decades has been a broad movement into various steel fabricating fields, including oil-field equipment, the erection of bridges, buildings and other structures, and the manufacture of steel drums.

Although Jones & Laughlin made a few forward vertical acquisitions during the late twenties, its program of external expansion did not gather momentum until the thirties, thus paralleling the timing of the other major steel companies. In July 1931, Jones & Laughlin acquired the entire capital stock of Louisiana Erecting Co., Inc., a subsidiary of Lukens Steel. This acquisition was followed 3 years later by the purchase of the Roy L. Brower Corp. of New York City, a jobber in nails. In 1935, Jones & Laughlin acquired the assets of National Bridge Works of Long Island City, N. Y. In more recent years it has added to its fabricating facilities by purchasing two steel drum companies, the Wackman Welded Ware Co. in 1942 and the Draper Manufacturing Co. in 1944.

In addition to these forward vertical acquisitions of steel drum companies, Jones & Laughlin has acquired since 1939 an integrated steel company, a coal company, the tin-plate mills of McKeesport Tin Plate Corp., and a tube plant. Moreover, it has purchased from the War Assets Administration an electrolytic tin-plate plant at Pittsburgh, as well as the equipment for bonderizing black plate at Aliquippa, Pa. By far the most important of these properties was the integrated steel firm, Otis Steel Co. in Cleveland, Ohio, purchased in June 1942, for $35 million, and consisting of coke, pig iron, blast furnace, open hearth, and steel finishing capacity, including continuous rolling mills and other equipment for the production of sheet, strip, and plate steel.

Among the more important forward vertical acquisitions made by other steel companies may be numbered the following: (1) The Emsco Derrick and Equipment Co., a manufacturer of steel derricks, a complete line of oil well drilling and pumping equipment, and other fabricated steel specialties, which was purchased in 1938 by Youngstown Sheet and Tube, (2) Joseph T. Ryerson & Son, Inc., leading factor in the steel warehousing field and operator of structural fabricating facilities, taken over by Inland Steel Co. in 1935, (3) The

Milcor Steel Co. and the J. M. and L. A. Osborn Co., both manufacturers of steel building materials, purchased by Inland in 1936 and (4) the Wilson & Bennett Manufacturing Co., a manufacturer of steel containers, also bought by Inland in 1939.

This expansion into the fabricating fields by producers of basic raw materials has a continuing and cumulative effect on small business. For one thing, the expansion has proceeded so far as to result in the almost complete disappearance of what formerly have been regarded as typical small business industries. The recent absorption of practically the entire steel drum industry by the basic steel producers provides a striking example of this process, which has been succinctly described by Iron Age in the following words:

> Long, long ago, in 1939, before the words postwar and planning were wedded, the manufacture of heavy steel barrels and drums was a rather volatile business firmly in the hands of a large number of highly individualistic entrepreneurs. Most of these fabricators had started on a precarious shoestring and were justifiably vocal in their pride of success in the classical Horatio Alger Pluck and Luck Tradition.
>
> A few weeks ago, the purchase of Bennett Mfg. Co., Chicago, by the United States Steel Corp. pretty well completed the capture of the entire barrel and drum business by major steel producers. Some 87 percent of the business, representing about 435,500 tons of steel consumption yearly has been corralled by the mills and the remaining 64,500 tons of independent capacity will probably remain so for a variety of reasons.[26]

The effect of the intervention of basic steel companies into the steel drum and barrel business is indicated in Chart 10, which shows the percentage of the total heavy drum capacity held in 1946 by basic steel companies, for the country as a whole and for the Nation's individual regions.

As will be noted, the country's leading steel producer is also the leading steel drum producer. United States Steel shares the Pacific coast region on a fifty-fifty basis with Bethlehem Steel; it is the leading steel drum producer in the Houston and New Orleans areas; and it is one of the leading producers in the Chicago and Cleveland-Pittsburgh regions.

Bethlehem (through Rheem) not only divides the Pacific coast region with United States Steel, but also is the leading producer in the important Atlantic coast region, where it accounts for over 40 percent of the steel drum production. In addition, it is an important factor in the Houston and Chicago areas.

In the St. Louis area, there is only one basic steel producer engaged in the steel drum industry—Jones & Laughlin. In addition, this company is second only to Bethlehem in the important Atlantic coast

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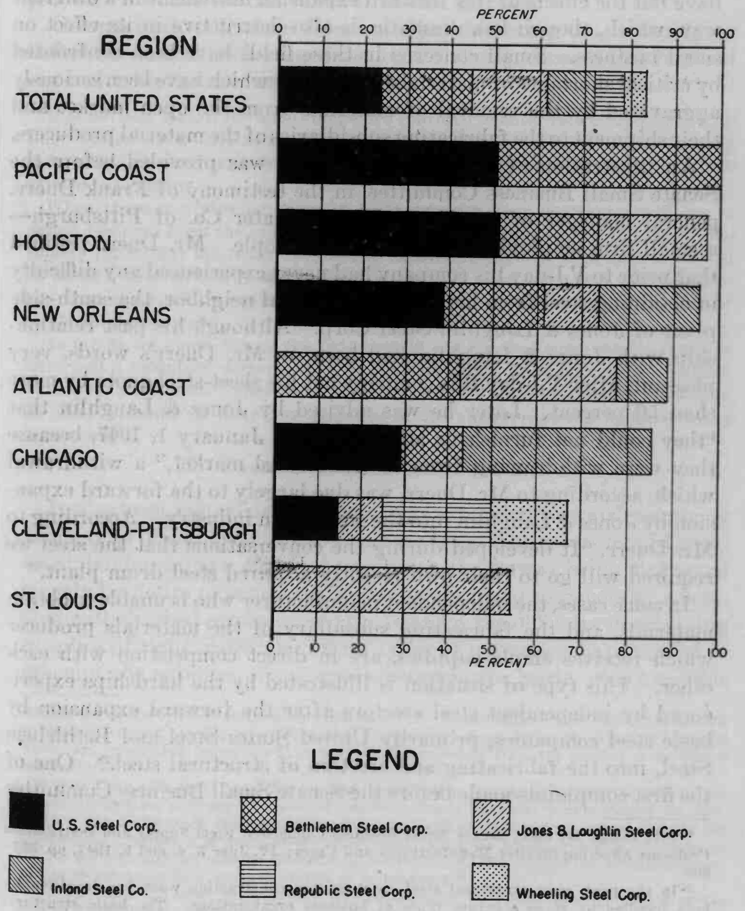
[26] The Iron Age, September 21, 1944, p. 103.

Chart 10

PERCENT OF TOTAL HEAVY STEEL DRUM CAPACITY HELD BY BASIC STEEL COMPANIES BY REGION, 1946.

Percent of Total Capacity 1/



Source: *Compiled from IRON AGE, Sept. 21, 1944, p 104*

1/ Based on Steel Requirements in 1944

region and produces sizable tonnages of drums in the Houston, New Orleans, and Cleveland-Pittsburgh areas.

Inland is the leading steel drum manufacturer in the Chicago area, while Republic is the leading producer in the Cleveland-Pittsburgh region—both firms confining their steel drum operations to a single geographic region.

At the same time that some fields, such as the steel drum industry, have been taken over practically *en bloc*, other small fabricating fields have felt the effects of this forward expansion movement in a different way, which, though less dramatic, is also destructive in its effect on small business. Small concerns in these fields have been confronted by critical shortages of materials—shortages which have been seriously aggravated by the removal of materials from the open market and their shipment to the fabricating subsidiaries of the material producers.

An illustration of this type of problem was provided before the Senate Small Business Committee, in the testimony of Frank Duerr, general manager of the Troop Water Heater Co. of Pittsburgh—a small firm employing from 60 to 100 people. Mr. Duerr testified that prior to VJ-day his company had never experienced any difficulty in obtaining steel from his nearest industrial neighbor, the south-side plant of Jones & Laughlin Steel Corp. Although his past relationship with Jones & Laughlin had been, in Mr. Duerr's words, very pleasant, after VJ-day this company cut his sheet-steel quota by more than 50 percent. Later he was advised by Jones & Laughlin that "they could not furnish us any steel after January 1, 1947, because they were withdrawing from the sheet steel market," a withdrawal which, according to Mr. Duerr, was due largely to the forward expansion by Jones & Laughlin into the steel drum industry. According to Mr. Duerr, "It developed during the conversations that the steel we required will go to their own recently acquired steel drum plant.[27]

In some cases, the independent manufacturer who is unable to obtain materials, and the fabricating subsidiary of the materials producer which receives ample supplies, are in direct competition with each other. This type of situation is illustrated by the hardships experienced by independent steel erectors after the forward expansion by basic steel companies, primarily United States Steel and Bethlehem Steel, into the fabricating and erection of structural steel.[28] One of the first complaints made before the Senate Small Business Committee

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[27] 80th Cong., 1st sess., Senate Small Business Committee, Steel Supply and Distribution Problems Affecting Smaller Manufacturers and Users: IV, June 3, 4, and 5, 1947, pp. 907–908.

[28] In the past, most structural steel entering into construction work has traditionally been handled by three separate types of business organizations. The basic structural shapes were supplied by the large steel companies. These shapes then went to much smaller concerns, the so-called fabricators, who fabricated the individual shapes to specifications for large bridges, multi-story buildings, etc. These shapes were then transported to the job site and erected by another class of relatively small firms, the so-called erectors, which are specialized companies that work on subcontracts from the general construction contractors.

was that of an independent steel erector, Karl Koch of the Bronx, N. Y., who was prevented from bidding on the erection of Government hospitals in New York State by this inability to obtain the raw steel. The only bidders on the project turned out to be United States Steel and Bethlehem Steel, both of which were able to provide not only the raw steel but its fabrication and erection as well. In fact, one official of Bethlehem stated that his company would not bid on steel for these particular Government hospitals unless it could execute the complete job, which would include fabrication and erection.[29]

Colonel Rockwell, of the Rockwell Manufacturing Co., in testifying before the committee, outlined the logical consequences of this forward expansion by the raw material producers.

> It is obvious that, if the steel companies continue to enter into competition with their customers in the fabricating and in the steel-consuming manufacturing industries, we shall soon be competing with vertical trusts of the type which existed in Germany.
>
> When there is a slowing down of business, such steel companies will try to obtain business from the independent steel barrel manufacturers and other consumers [of steel]; but, when business is expanding rapidly, such customers will be faced with a refusal to supply steel at the very time when it is impossible to buy from other steel companies who are considerate enough to take care of their established customers.
>
> As far as we know, this is the first time in history that some steel companies have had a sustained demand, and, at the same time, have been in competition with their customers. They have, therefore, cut off some established customers in order to build up their own business in the steel-consuming manufacturing industries.[30]

(2) BACKWARD VERTICAL ACQUISITIONS

Just as basic materials producers have expanded forward, acquiring fabricators of end products, so also have large fabricators moved backward, buying up raw material producers, the former being motivated largely by desire to secure the higher profit margins generally associated with finished products, and the latter by the difficulty in obtaining supplies of tight materials. Both types of movement have tended to preempt the supplies of materials, components, parts, etc., available for small business. Through these vertical acquisitions, whole sectors of the economy have, in fact, become captive adjuncts of the large fabricating companies.

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[29] 80th Cong., 2d sess., Steel Supply and Distribution Problems, Interim Report of the Special Committee to Study Problems of American Small Business, Senate Report No. 825, p. 10. "As a result of these hearings, the subcommittee was able to secure for all the independent erectors a revision of the Government bid form which would enable them to bid on the separate services on Government construction, and require the integrated companies to bid, separately, on each service to be rendered."

[30] 80th Cong., 2d sess., Steel Supply and Distribution Problems, Interim Report of the Special Committee to Study Problems of American Small Business, Senate Report No. 825, pp. 9–10.

As an instance of the backward movement, a large number of important manufacturers of various types of machinery have recently undertaken many of the activities formerly performed by subcontractors. In order to do this, they have purchased firms producing tool and die shop products, metal stampings, screw machine products, etc. For example, Whiting Machine Works, one of the largest textile machinery companies, bought Fay & Scott, machine tool manufacturers; Republic Industries Corp., manufacturer of aircraft engines, purchased Geometric Stamping Co., auto and washing machine parts; and American Chain & Cable Co. acquired the Maryland Bolt & Nut Co. In many cases the products formerly supplied by these independent manufacturers will not be available to outsiders as long as the seller's market continues and the shortages persist.

Automobile manufacturers have purchased iron and steel foundries and other suppliers of automobile equipment, including producers of drop forgings. Railroad equipment firms have taken over organizations producing steel castings, high-temperature castings, alloys, pumps, etc.[31] In the electrical machinery industry, manufacturers have reached backward to take over firms producing such items as magnesium alloys, wire, and plastics.[32] The extreme shortages have led to a scramble for widely-used components, resulting in numerous acquisitions by large companies of producers of motors, electric generators, superchargers, pressure gages, heating control instruments, etc.[33]

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[31] For example, General American Transportation Corp., owner and operator of a large fleet of tank cars, as well as builder of railroad cars, acquired the Petroleum Iron Works Co. (Sharon, Pa.), a manufacturer of heavy welded steel equipment used in the construction of tank cars. H. K. Porter, Inc., a producer of switch and industrial locomotives, acquired three companies making parts that could be used in its locomotives. These included two railroad car spring manufacturers (Fort Pitt Spring Co. and the American Spiral Spring & Manufacturing Co.) and a company making the wearing parts for locomotive brakes (Brake Equipment & Supply Co.).

[32] This type of vertical backward acquisition has been especially evident among radio manufacturers, who have bought a number of companies making radio parts. Emerson Radio and Phonograph acquired Radio Speakers, Inc. and Plastimold Corp. (a maker of plastic radio cabinets); Hallicrafters Co., making radio and communications equipment, acquired Electronics Winding Co.; Admiral Corp., a manufacturer of radio and phonograph combination (as well as refrigerators) purchased the Chicago Cabinet Corp., manufacturer of console cabinets.

[33] For example, the Hoover Co., a leading producer of vacuum cleaners, acquired the Kingston-Conley Electric Co., manufacturer of fractional horsepower motors. Worthington Pump & Machinery Corp., acquired the Electric Machinery Manufacturing Co., which, in addition to electric motors, manufactures generators and controlling devices. Borg-Warner acquired the McCollock Engineering Co., producing superchargers; National Pressure Cooker Co. acquired the La Crosse Products Corp., manufacturer of all types of pressure gages; and Iron Fireman Manufacturing Co., manufacturer of automatic coal stokers, oil burners, etc., purchased the L. R. Teeple Co., makers of automatic heating control instruments.

In another branch of manufacturing, a number of large paper companies have reached back to acquire producers of pulp, and more particularly, to buy up large stands of timber. (For example, St. Regis Paper Co. purchased the West Fork Timber Co. and the North Bend Timber Co., both logging operators in Washington State. Kimberly-Clark Corp. acquired the Pulp Wood Co.). Similarly, lumber manufacturers made backward acquisitions involving the absorption of timber and logging firms. (Weyerhauser Timber Co. acquired the Drew Timber Co. and the Coos Bay Logging Co. Long-Bell Lumber Co. purchased, among others, the Oak Park Lumber Co. and the Austa Lumber Co.). At the same time, several prominent magazine publishers have attempted to guarantee their paper supply by buying up paper mills. Subsequently, some of these mills were resold to other large paper companies in return for long-term supply contracts stipulating a continued flow of paper over a period of several years.[34]

In the petroleum industry, the large integrated companies have been particularly active in acquiring crude-oil producers and have also picked up a number of strategically located pipe lines.[35] Finally, the purchase of a number of steel sheet producers by large fabricators has seriously reduced the supply of this critical material available for small fabricating firms. Outstanding examples of this were the purchases of the Mahoning Valley Steel Co. by General Electric, the Superior Sheet Steel Co. by Borg-Warner Corp., the Andrews Steel Co. by International Detrola Corp. and the Empire Steel Corp. by Studebaker Corp. In addition, Kaiser-Frazer Corp, bought, first, the integrated Portsmouth plant of the Wheeling Steel Corp. and then the Indiana rolling mill of Continental Steel Corp.[36]

Acquisitions of this character led the Senate Small Business Committee to comment:

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[34] The outstanding example is Time, Inc., which bought three paper mills, later reselling them to St. Regis Paper Co. and then contracting for a supply of paper over a long period with St. Regis. National Geographic Society obtained a majority of the stock of Champion-International Co.; Hearst Consolidated Publications bought the Pejepscot Paper Co.

[35] Standard of New Jersey, through a subsidiary, acquired the Leader Oil Co., Tulsa, Okla., and the Minnelusa Oil Corp., Denver, Colo., both crude producers, as well as the Yale Oil Corp., a refiner and distributor owning wells in the Elk Basin. It also acquired the pipeline properties of Standard Oil of Louisiana. Texas Corp. acquired the Marvel Oil Co., a Wyoming crude producer, and seven other oil-producing properties.

[36] Hudson Motor Co. leased from the War Assets Administration two-thirds of the former Shenango tin-plate mill to produce steel sheets for automobile bodies. Formerly owned by the Carnegie-Illinois Steel Corp., the latter plant had been converted to the production of aluminum forgings during the war. In other branches of the iron and steel industry, Willys-Overland Motors, Inc., acquired a gray-iron casting plant; a syndicate of 25 companies, including Atlas Tack Corp., Gibson Refrigerator Co., and others, acquired Phoenix Iron Co.; and three companies, Lukens Steel Co., Worth Steel Co., and Warren Pipe & Foundry Corp., purchased stock control of E. & G. Brooke Iron Co. Kaiser-Frazer Corp., purchased an idle blast furnace at Struthers, Ohio, and put it into operation in the latter part of 1946.

> Regardless of whether the integration movement is across the board or up and down in the steel industry, the results to the smaller business man are equally devastating in the removal of his source of supply.
>
> The purchase of steel-producing facilities by large manufacturers of steel products in order to assure themselves of a source of steel is another angle of the integration movement. As one example, the purchase of the Mahoning Valley Steel Co. by General Electric Co., to assure Mahoning's full production for General Electric, *has left such customers as the Corry-Jamestown Co. dependent upon gray-market steel.*[37]

One of the most striking illustrations of backward vertical acquisitions is provided by the recent activities of the country's second largest grocery chain, Safeway Stores—an organization which owes most of its growth to acquisitions of one type or another. According to Merrill Lynch, Pierce, Fenner & Beane, brokerage house,[38] "A predecessor company had its origin in four grocery stores established in 1914 in Los Angeles, but geographical expansion through acquisition of various going organizations and installation of new units has had an eastward bent since incorporation of the present company in 1926." [39]

Until recent years, most of Safeway's acquisitions were horizontal in character, consisting of the purchase of other chain stores. Thus the company's operations in southern California were greatly enlarged through the acquisition of the H. G. Chaffee Co. chain (with 83 stores). This step was soon followed by the purchase of the Skagges chain, which carried Safeway into other Western States. In 1928 and 1929, the company acquired two additional chains in California, and another chain operating in Arizona (Arizona Grocery Co. and its subsidiary, Pay 'n' Takit Stores, Inc.). It then moved eastward to buy out the Sun Grocery Co. in Tulsa, Okla., as well as the Bird Grocery Stores, Inc. (operating under the Piggly Wiggly system) in Kansas City, Mo. It then moved to the east coast, buying out the large Sanitary chain (Washington, D. C.) and Eastern Stores, Inc. (Baltimore, Md.). Finally, it began operations north of the Canadian border by acquiring a chain of stores and a wholesale grocery business in the western provinces. By 1931 Safeway had surpassed the Kroger Co. in sales and was rapidly gaining ground on the Great Atlantic & Pacific Tea Co., the country's leading grocery chain. In 1947, with 2,442 stores in 23 States, the District of Columbia, and

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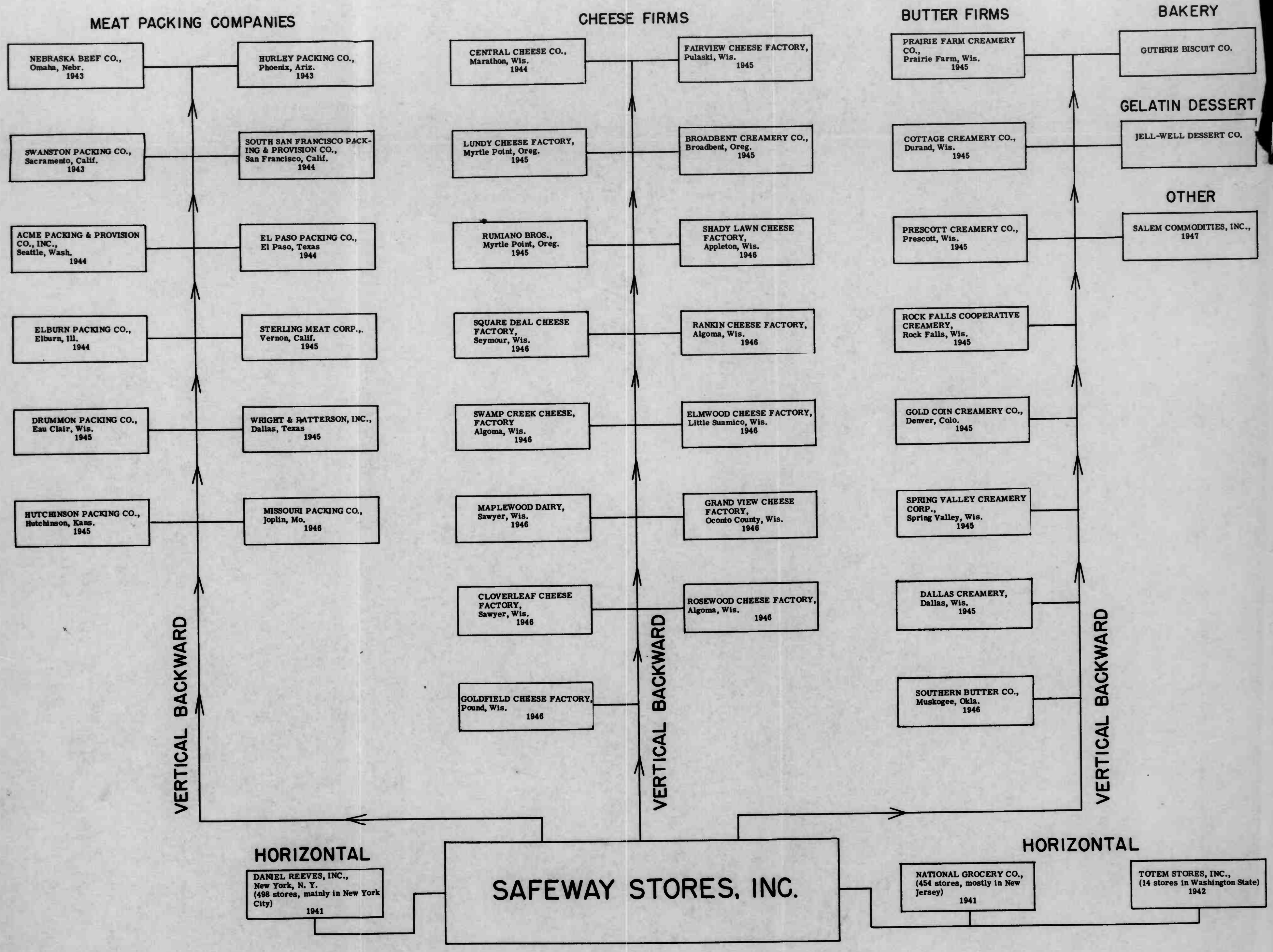
[37] 80th Cong., 2d sess., Interim Report of the Special Committee to Study Problems of American Small Business, U. S. Senate, "Steel Supply and Distribution Problems," p. 9. Italics added.

[38] According to the SEC, in 1938 the Merrill and Lynch families, and companies jointly controlled by them, held 19.15 percent of the common stock of Safeway Stores, Inc., which made them the principal owner of Safeway. (Cf. TNEC Monograph No. 29, p. 1495.)

[39] Merrill Lynch, Pierce, Fenner & Beane, Chain Stores, 1946, p. 25.

Chart 11

BACKWARD VERTICAL AND OTHER ACQUISITIONS OF SAFEWAY STORES, INC., 1940–47


MEAT PACKING COMPANIES
NEBRASKA BEEF CO., Omaha, Nebr. 1943
HURLEY PACKING CO., Phoenix, Ariz. 1943
SWANSTON PACKING CO., Sacramento, Calif. 1943
SOUTH SAN FRANCISCO PACKING & PROVISION CO., San Francisco, Calif. 1944
ACME PACKING & PROVISION CO., INC., Seattle, Wash. 1944
EL PASO PACKING CO., El Paso, Texas 1944
ELBURN PACKING CO., Elburn, Ill. 1944
STERLING MEAT CORP.,. Vernon, Calif. 1945
DRUMMON PACKING CO., Eau Clair, Wis. 1945
WRIGHT & PATTERSON, INC., Dallas, Texas 1945
HUTCHINSON PACKING CO., Hutchinson, Kans. 1945
MISSOURI PACKING CO., Joplin, Mo. 1946
VERTICAL BACKWARD
CHEESE FIRMS
CENTRAL CHEESE CO., Marathon, Wis. 1944
FAIRVIEW CHEESE FACTORY, Pulaski, Wis. 1945
LUNDY CHEESE FACTORY, Myrtle Point, Oreg. 1945
BROADBENT CREAMERY CO., Broadbent, Oreg. 1945
RUMIANO BROS., Myrtle Point, Oreg. 1945
SHADY LAWN CHEESE FACTORY, Appleton, Wis. 1946
SQUARE DEAL CHEESE FACTORY, Seymour, Wis. 1946
RANKIN CHEESE FACTORY, Algoma, Wis. 1946
SWAMP CREEK CHEESE, FACTORY Algoma, Wis. 1946
ELMWOOD CHEESE FACTORY, Little Suamico, Wis. 1946
MAPLEWOOD DAIRY, Sawyer, Wis. 1946
GRAND VIEW CHEESE FACTORY, Oconto County, Wis. 1946
CLOVERLEAF CHEESE FACTORY, Sawyer, Wis. 1946
ROSEWOOD CHEESE FACTORY, Algoma, Wis. 1946
GOLDFIELD CHEESE FACTORY, Pound, Wis. 1946
VERTICAL BACKWARD
BUTTER FIRMS
PRAIRIE FARM CREAMERY CO., Prairie Farm, Wis. 1945
COTTAGE CREAMERY CO., Durand, Wis. 1945
PRESCOTT CREAMERY CO., Prescott, Wis. 1945
ROCK FALLS COOPERATIVE CREAMERY, Rock Falls, Wis. 1945
GOLD COIN CREAMERY CO., Denver, Colo. 1945
SPRING VALLEY CREAMERY CORP., Spring Valley, Wis. 1945
DALLAS CREAMERY, Dallas, Wis. 1945
SOUTHERN BUTTER CO., Muskogee, Okla. 1946
VERTICAL BACKWARD
BAKERY
GUTHRIE BISCUIT CO.
GELATIN DESSERT
JELL-WELL DESSERT CO.
OTHER
SALEM COMMODITIES, INC., 1947
HORIZONTAL
DANIEL REEVES, INC., New York, N. Y. (498 stores, mainly in New York City) 1941
SAFEWAY STORES, INC.
HORIZONTAL
NATIONAL GROCERY CO., (454 stores, mostly in New Jersey) 1941
TOTEM STORES, INC., (14 stores in Washington State) 1942

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

Canada, it was the Nation's second largest retailer of grocery products, the largest in point of sales in the Pacific, Western, and Mountain States, and one of the dominant chains in the South Atlantic States.

In recent years, however, its horizontal purchases of other chains have been largely superseded by its backward ~~vertical acquisitions of~~ processors of food and related products. Most of the big grocery chains, Safeway included, have for many years ~~operated their own~~ warehouses and performed most of the wholesaling functions. Moreover, it has been common practice for them to own bread bakeries, to have their own dairy subsidiaries, to process coffee, and to import tea. Beginning in 1943, however, Safeway accelerated its backward acquisition movement, and bought up firms in a wide range of food processing fields, including meat-packing, butter, cheese, and other operations.

As the accompanying chart (Chart 11) shows, in 1941 and 1942 Safeway had carried its cross-country acquisition drive into New York City and New Jersey through the purchase of two sizable grocery chains in those areas. At the same time, a third acquisition gave it a small chain in Washington State. Immediately thereafter, Safeway reached back into manufacturing and purchased 12 meat slaughtering plants in such widely separated areas as Illinois, Wisconsin, Nebraska, Missouri, Kansas, Arizona, Texas, California, and Washington.

It also acquired 15 cheese-making plants,[40] all but three of which were located in Wisconsin; it purchased eight butter firms, one fish-processing plant, one poultry-processing plant, one nonalcoholic beverage plant, one biscuit and cracker company, one cake and cookie company, and one dessert-powder plant.

During the first half of 1945, when meat supplies were severely restricted, Safeway obtained over 30 percent of its total supply from its own meat-packing plants. This undoubtedly was an abnormally high percentage (the corresponding figure had been 11 percent during the first half of 1944), but it suggests the importance of Safeway's acquisitions in the meat-packing industry.[41] In addition to the operation of meat-slaughter plants, the firm's procurement activities have also been extended to livestock buying and feeding. Safeway has publicly stated, however, that it "has not, and will not, enter into the business of animal production" and that as soon as it secures a sufficient number of fed stock to maintain its supply plant operations, "Safeway will discontinue the feeding of cattle * * *[42]

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[40] Figures for cheese plants do not include 6 cheese plants leased for periods of a few months but do include 4 cheese plants which have now been closed; the 12 meat-packing plants include 4 packing plants which have now been closed. (The figures were presented by Safeway Stores before the House Judiciary Subcommittee, op. cit., p. 124.) One meat-packing plant, formerly Drummon Packing Co., at Eau Claire, Wis., was resold in 1947 to Armour & Co.

[41] Contending that its recent acquisitions have not "in any sense lessened competition, restrained trade, or tended to create a monopoly," Safeway Stores, Inc., has submitted data to the House Judiciary Committee allegedly showing that the acquired firms account for less than 1 percent of the country's total meat, cheese, and butter production. The company states that in the case of gelatins and dessert powders, the plant acquired by Safeway represents approximately 3 percent of the national output. These figures represent national totals, and the percentages would be substantially higher in a number of

(3) TWO-WAY VERTICAL ACQUISITIONS—TEXTILES

It frequently happens during periods of intensive merger activity that, in a given industry, raw material producers will expand forward into the finished products field, while manufacturers of the finished products are at the same time expanding backward into the production of raw materials, thereby forming a two-way pattern of vertical expansion. The classic example of this two-way tendency is to be found in the experience of Andrew Carnegie and the National Tube Co. before the turn of the century. Around 1890 there existed a rough division of the steel industry between the makers of basic and semifinished steel (including Andrew Carnegie) on the one hand, and the producers of the more highly finished steel products (including the National Tube Co.) on the other. While the former group had expanded backward, through mergers, into some of the prior processes of mining and shipbuilding, and the latter group had made many horizontal mergers involving other producers of finished steel products, neither of the two groups had seriously invaded the other's domain.

But all this came to an end when in 1900 the National Tube Co. decided to expand backward into the production of basic steel and to cease purchasing from the Carnegie Co. Carnegie responded dramatically by threatening to erect the largest tube works in the world. This imminent conflict was one of the many important forces behind the formation of the United States Steel Corp., which brought together not merely these two firms but numerous other organizations that were actually or potentially competitive with each other.

A modern example of this type of movement is that which has occurred in recent years in the textile industry, a field in which the merger movement is nothing less than spectacular. According to the Cotton Textile Institute, in the years 1940–46, inclusive, approximately one-fifth of the productive facilities in the cotton-textile field changed ownership. The commonly recognized underlying causes of this wave of mergers were: (1) shortage of gray goods, caused by enormous demands during the war and the immediate postwar period; (2) more favorable profit margins, particularly under wartime price controls, in the finished-goods lines; (3) consequent assumption of the finishing operations by gray-goods mills; and (4) responsive efforts of converters, selling agents, dry goods wholesalers, etc., to gain access to gray goods through mergers. On the one hand, the basic producers of gray goods were expanding forward into the finishing operations, while on the other hand, the various fabricators engaged in the latter stages of operation were moving backward into the gray-goods field. Once the wave of mergers was under way, the movement had a cumulative impact—spreading from one branch of the industry to another.[43] The over-all impact of the movement on the structure of the cotton-textile industry is indicated in the following table prepared by the Cotton Textile Institute.

Acquisition of cotton yarn and cloth mills, 1940–46

Type of acquisition	Number of spindles	Percent of total spindle acquisitions
New ownership	1,050,088	23.7
Machinery dealers (for resale)	375,756	8.5
Horizontal-cotton mills	795,088	17.9
Vertical	2,212,611	49.9
Selling agents	679,577	15.3
Converters	665,616	15.0
Cotton mills	311,576	7.0
Cutters	277,096	6.3
End use, other than clothing	230,586	5.2
Wholesalers	48,160	1.1
Total	4,433,543	100.0

Source: Cotton Textile Institute, as published in Hearings to Amend Sections 7 and 11 of the Clayton Act, op. cit., p. 229. (NOTE.—Figures have been corrected for minor discrepancies.)

During the years 1940–46 inclusive, 164 cotton textile companies engaged in spinning or weaving, or both, changed ownership. These firms owned more than 4.4 million spindles and more than 88,000 looms, or approximately one-fifth of the industry's productive facilities. According to the Cotton Textile Institute's figures half (49.9 percent) of all the spindles that changed hands did so as a result of vertical acquisitions. The most active purchasers were selling agents and converters, while cotton mills, cutters, and other end-use firms were also prominent. Approximately 18 percent of the mergers represented outright horizontal combinations—one cotton mill buying

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important regions. Safeway did not present any data showing the proportion of the supply held in any particular region or locality. (Cf. Hearings on H. R. 515. op. cit., pp. 124–133.) As in the case of other acquisitions cited in this report. the Commission takes no position as to whether any individual acquisition or group of acquisitions constitutes a "substantial lessening of competition or tendency to create a monopoly." Such a determination can be made only after an examination of the facts on a case-by-case basis.

[42] Hearings on H. R. 515, p. 127.

[43] Aside from the cotton-goods branch of the industry, the current wave of mergers has embraced rayon mills, hosiery mills, and many other branches of the textile trade.

another. The remaining one-third of the acquisitions represented purchases of machinery by dealers for resale, or new ownership.[44]

A brief account of the recent mergers made by some of the leading textile firms may serve to illustrate the two-way character of the merger movement in this industry. These examples include the expansions by Burlington Mills Corp. (basically a gray-goods manufacturer which has moved forward into the finishing field), M. Lowenstein & Sons (a prominent New York converter which has expanded backward by acquiring gray-goods mills), J. P. Stevens & Co., Inc. (a leading sales agent which has also extended itself backward by acquiring gray-goods mills), and Ely & Walker Dry Goods Co. (a dry-goods wholesaler which has likewise moved backward by purchasing gray-goods mills.)

Prior to the war, Burlington Mills was engaged in the manufacture of woven fabrics from rayon yarns and rayon mixtures, and to some extent from cotton yarns. It undertook some of the dyeing and finishing of the cloth and produced such end products as bedspreads and draperies. However, it also produced women's wear dress fabrics and sold them in the gray to converters in New York City, who subsequently resold them in the finished state to the cutting-up trades. Burlington similarly sold such items as lining fabrics, corset cloths, and spun-rayon suiting for men's wear and underwear fabrics, in the gray to converters. Shortly before the war, the firm had begun the

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[44] In presenting these figures and in opposing the proposed amendment to sec. 7 of the Clayton Act, the Cotton Textile Institute criticized the Commission's interpretation of the movement. Moreover, the Cotton Textile Institute took the position that the modern interpretation of competition is quite different from that envisaged in the Sherman Antitrust Act. According to the Institute:

"Within recent years competition has come to have a different meaning from that which prevailed at the passage of the Sherman Antitrust Act and which has prevailed in political and public discussions for the greater part of the period since. At one time *competition* was almost universally regarded as *price rivalry*. And unfair competition was thought of as price manipulation supported by great financial power with the purpose of destroying the small competitor. This old concept is rapidly disappearing before the onslaught of technical and scientific advancement. The question of price is, of course, still important but it is now related to comparative efficiency much more importantly than to financial manipulation." [Italics added.]

In reply the Commission stated that the question of whether or not any individual acquisition (such as those mentioned in this report) actually does "substantially lessen competition or tend to create a monopoly" is a matter to be determined on a case-by-case basis, and that such an analysis is beyond the scope of the Commission's existing resources. However, in reference to the Cotton Textile Institute's concept of the "new competition," the Commission stated:

"It may be an old concept but the Federal Trade Commission still believes in price competition. If price competition is disappearing, it is vanishing because of the growth of monopoly, which H. R. 515 is designed to arrest, and not because of any 'technical and scientific advancement.' It is to be hoped that such scientific advancement will intensify rather than eliminate price competition, which is the automatic regulator of the free enterprise system."

(Cf. 80th Cong., 1st sess., Hearings to Amend Sections 7 and 11 of the Clayton Act, before Subcommittee No. 2 of the Committee on the Judiciary, House of Representatives, March–April 1947, pp. 224, 236, respectively.)

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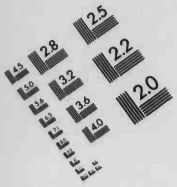
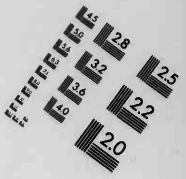

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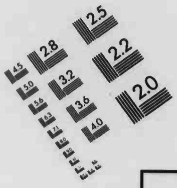
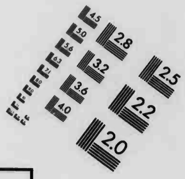
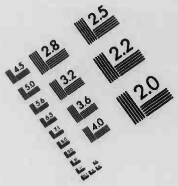
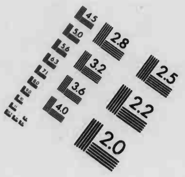

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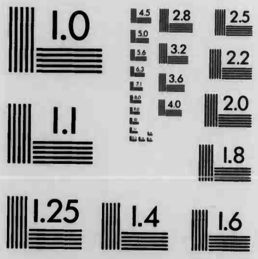

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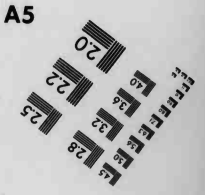
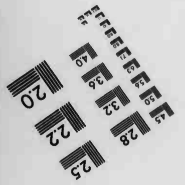
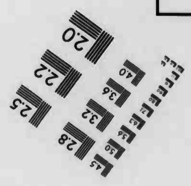
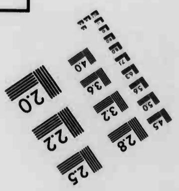

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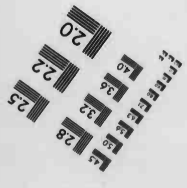

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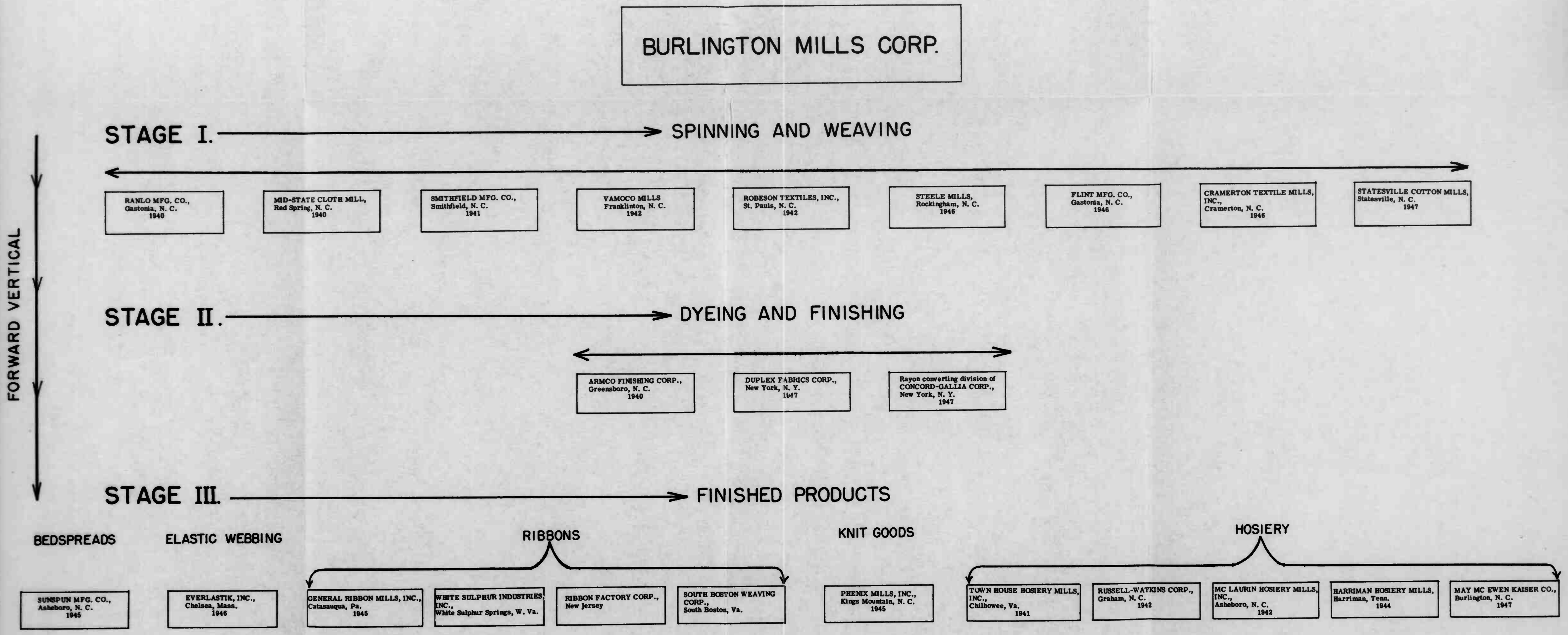
Chart 12

VERTICAL AND OTHER ACQUISITIONS OF BURLINGTON MILLS CORP.

1940—47


BURLINGTON MILLS CORP.
FORWARD VERTICAL
STAGE I. SPINNING AND WEAVING
RANLO MFG. CO., Gastonia, N. C. 1940
MID-STATE CLOTH MILL, Red Spring, N. C. 1940
SMITHFIELD MFG. CO., Smithfield, N. C. 1941
VAMOCO MILLS Franklinton, N. C. 1942
ROBESON TEXTILES, INC., St. Pauls, N. C. 1942
STEELE MILLS, Rockingham, N. C. 1946
FLINT MFG. CO., Gastonia, N. C. 1946
CRAMERTON TEXTILE MILLS, INC., Cramerton, N. C. 1946
STATESVILLE COTTON MILLS, Statesville, N. C. 1947
STAGE II. DYEING AND FINISHING
ARMCO FINISHING CORP., Greensboro, N. C. 1940
DUPLEX FABRICS CORP., New York, N. Y. 1947
Rayon converting division of CONCORD-GALLIA CORP., New York, N. Y. 1947
STAGE III. FINISHED PRODUCTS
BEDSPREADS
SUNSPUN MFG. CO., Asheboro, N. C. 1945
ELASTIC WEBBING
EVERLASTIK, INC., Chelsea, Mass. 1946
RIBBONS
GENERAL RIBBON MILLS, INC., Catasauqua, Pa. 1945
WHITE SULPHUR INDUSTRIES, INC., White Sulphur Springs, W. Va.
RIBBON FACTORY CORP., New Jersey
SOUTH BOSTON WEAVING CORP., South Boston, Va.
KNIT GOODS
PHENIX MILLS, INC., Kings Mountain, N. C. 1945
HOSIERY
TOWN HOUSE HOSIERY MILLS, INC., Chilhowee, Va. 1941
RUSSELL-WATKINS CORP., Graham, N. C. 1942
MC LAURIN HOSIERY MILLS, INC., Asheboro, N. C. 1942
HARRIMAN HOSIERY MILLS, Harriman, Tenn. 1944
MAY MC EWEN KAISER CO., Burlington, N. C. 1947

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

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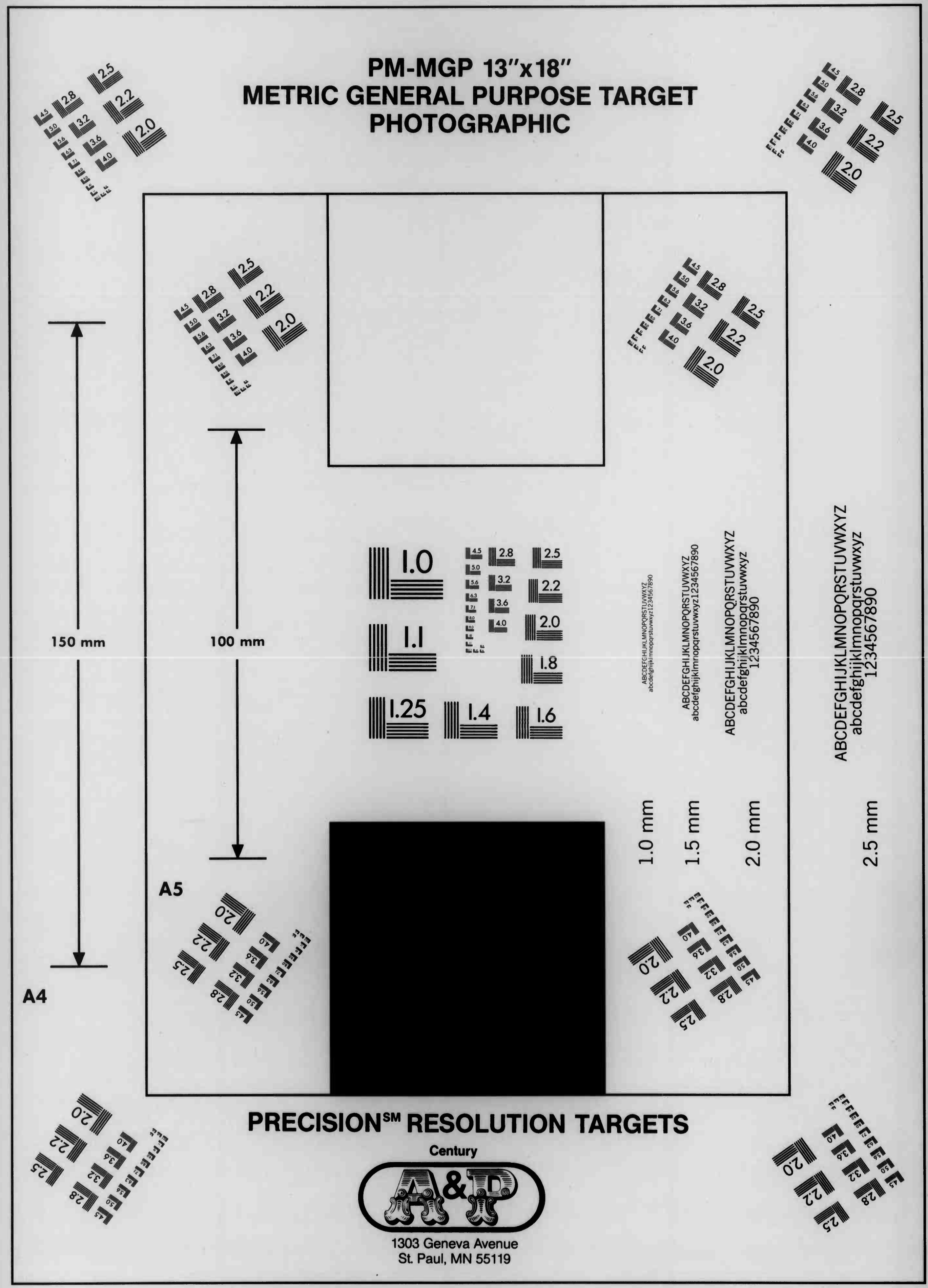

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manufacture of hoisery and had organized six subsidiary corporations for the purpose of engaging in the manufacture and sale of ladies' full-fashioned hosiery.

Since 1940, Burlington has made some 24 acquisitions of other firms. (See Chart 12.) The general tendency of these acquisitions has been to solidify the vertical organization of the firm and reduce the importance of its sales to independent converters. Burlington is now the largest producer of fabrics made from synthetic yarns in the United States, using approximately 10 percent of the total rayon production in this country, exclusive of tire-cord yarns. As the accompanying chart indicates, many of its recent individual purchases could, in a sense, be regarded as horizontal acquisitions at various levels of the production process. When considered in the aggregate, however, they have clearly had the effect of moving Burlington's operations toward the finished-goods phases of the industry. This is particularly true of its acquisitions of nine spinning and weaving firms, three dyeing and finishing (and selling) concerns, five hosiery mills, one knit-goods firm, four ribbon companies (including a sales agent), an elastic webbing manufacturer and a bedspread firm. Although some of Burlington's decorative fabrics (draperies, bedspreads, etc.) are sold direct to department stores, specialty shops, and the like, it has not as yet taken the final step in the forward expansion process of manufacturing ready-to-wear goods.

M. Lowenstein & Sons is one of the leading New York converters, and has had a small stake in the gray-goods field since 1924, when it acquired the facilities of Saratoga Victory Mills, Inc., in Alabama. Beginning early in 1946 the Lowenstein firm set out to purchase a number of cotton mills, and by October 1947 it had secured 10 times the number of spindles it had previously operated.[45]

Largely as a result of its recent acquisitions, J. P. Stevens & Co., Inc., traditionally one of the oldest and most prominent cotton sales agents in America, has now become the country's second largest textile-mill product company and its largest cotton-textile firm. In the past it limited itself to the function of servicing numerous textile mills in marketing their products and did not participate in the direct ownership and operation of textile mills. But recently this traditional pattern has been completely changed. In 1946 J. P. Stevens absorbed 11 textile firms, which controlled no less than 30 Southern and New England mills!

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[45] The gray-goods firms brought into the Lowenstein fold included the Huntsville Manufacturing Co., of Alabama (print cloth); Entwistle Manufacturing Co., now called Aleo Manufacturing Co., of Rockingham, N. C. (print cloth and narrow sheetings); Orr Mills, Anderson, S. C. (print cloth and twills); and the Limestone & Hamrick Mills at Gaffney, S. C.

Early in 1947 it acquired the Ragan Spinning Co., a manufacturer of men's hosiery. In July 1947, it bought the Hannah Picket Mill No. 2 at Rockingham, N. C. (producing cotton, wool, and synthetic suitings); in December 1947, it acquired the Lola Mills, Inc., of Stanley, N. C. (thread and yarn); and in January 1948, it purchased a majority interest in Industrial Cotton Mills, Inc., a company specializing in denims and osnaburgs. At the present time, J. P. Stevens & Co., Inc., controls more than 20 cotton and rayon mills with nearly 631,000 spindles, and 9 woolen and worsted mills with about 76,000 spindles.[46] In addition, it operates dyeing and finishing facilities and a men's hosiery mill.

Similarly, Ely & Walker Dry Goods Co., the country's largest dry-goods wholesaler, furnishes another striking example of backward vertical integration in the textile industry. While Ely & Walker's acquisitions have been few in number, they have involved some of the largest firms in the industry. In 1946 it bought Calhoun Mills (Calhoun Falls, N. C.) whose assets exceeded $3,000,000, and also acquired a large block of stock in Pacific Mills. The latter firm is one of the country's largest textile firms engaged in the cotton, rayon, and wool branches of the industry. In December 1947, Ely & Walker added the F. W. Poe Manufacturing Co. (Greenville, S. C.) print-cloth capacity to its list of properties.

While it is too early to appraise the ultimate effects of the merger movement on competition in the textile industry, there can be little doubt that many units in the trade have become distinctly big business organizations. This is indicated by the listings of the Nation's 1,000 largest American manufacturing corporations which are periodically prepared by the Department of Commerce. Between 1943 and 1946 the number of textile-mill product firms included in the list rose from 70 to 85, an increase of 21 percent. As would be anticipated, the textile firms that have risen most rapidly in importance have been those which have been most heavily engaged in merger activity.

The potential results of this merger movement in textiles have been summarized by one of the industry's own trade journals, Textile World, in the following words:

> Belief is prevalent that the industry is entering an era of larger mill groups and that consequently fewer men will control the majority of its equipment and its products. Some extremists even forecast that the time is coming when a mere five or six companies will dominate the textile field just as has come to pass in the automobile industry.[47]

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[46] This compares with Burlington's 550,400 spindles; Lowenstein's 336,100 spindles; and Ely & Walker's 118,500 spindles (which does not include Ely & Walker's minority interest in Pacific Mills' 217,700 cotton and rayon spindles, and 73,100 woolen and worsted spindles).

[47] Textile World, July 1946, p. 101.

CONGLOMERATE ACQUISITIONS

Conglomerate acquisitions, sometimes referred to as circular acquisitions, are those in which there is little or no discernible relation between the business of the purchasing and the acquired firm. Of all the types of mergers, the reasons for this particular form of acquisition are the most difficult to ascertain. Intent to remove a troublesome competitor or to become the leading producer of a particular product, so often present in horizontal acquisitions, generally does not exist in conglomerate acquisitions. Desire to acquire sources of supplies or end-product fabricating facilities, which characterizes vertical acquisitions, is not a factor in conglomerate mergers. Instead, the motives underlying conglomerate acquisitions appear to include such diverse incentives as desires to spread risks, to invest large sums of idle liquid capital, to add products which can be handled with existing sales and distributon personnel, to increase the number of products which can be grouped together in the company's advertisements, etc.

But in addition to these factors, there is present in most conglomerate acquisitions a simple drive to obtain greater economic power. With the economic power which it secures through its operations in many diverse fields, the giant conglomerate corporation may attain an almost impregnable economic position. Threatened with competition in any one of its various activities, it may sell below cost in that field, offsetting its losses through profits made in its other lines—a practice which is frequently explained as one of meeting competition. The conglomerate corporation is thus in a position to strike out with great force against smaller business in a variety of different industries. As the Commission has previously pointed out, there are few greater dangers to small business than the continued growth of the conglomerate corporation.[48]

But while the conglomerate corporation is thus able to wield tremendous economic power, it rests on a less secure economic justification than most other forms of corporate enterprise. The greater production skills and know-how which conceivably may be obtained through horizontal acquisitions of similar firms making similar products do not become technically possible as a result of conglomerate acquisitions. The economies which conceivably may occur in vertical acquisitions, as a result of a smoother and more rapid flow of materials through the production process, are generally not to be found in conglomerate acquisitions. This is not to say that no conglomerate acquisition increases efficiency. But, as the Commission has previously stated: "The traditional rationalizations for mergers are less applicable to this type of acquisition of firms in completely dissimilar and unrelated fields than to the horizontal and vertical types because of the great difficulty in obtaining thereby any important efficiency of production and distribution." [49]

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[48] Federal Trade Commission, the Present Trend of Corporate Mergers and Acquisitions, 1947, p. 13.

During the current merger movement, conglomerate acquisitions of one type or another have been made throughout manufacturing industries, particularly in such fields as machinery, food, petroleum, and drugs.

Among the recent conglomerate acquisitions by machinery manufacturers was the purchase of a can-machinery firm by a Diesel engine manufacturer; the acquisition of a paper-bottle company by a large maker of precision parts for aircraft, Diesels, and autos; and the merger of a leading vacuum-cleaner manufacturer with an oil-burner firm.[50]

As would be expected, aircraft producers were especially active in seeking diversification for the postwar period. Acquisitions of leading firms included manufacturers of such products as movie equipment, radios, agricultural equipment, and burial caskets.[51]

Striking instances of conglomerate acquisition are presented in the food field. Large dairy firms purchased organizations in such unrelated fields as fisheries, sardine canning, and brewing.[52] Nation-wide specialty food concerns—such as General Foods and Standard Brands—broadened their lines through a wide variety of acquisitions.[53] At the same time leading petroleum corporations went so far as to purchase firms manufacturing chemical sprays, cotton presses, and shipbuilding materials.[54]

But it is in the drug industry that conglomerate acquisitions have been most prominent during recent years. Nearly all of the leading companies in this field have a long record of mergers which have taken almost every conceivable direction—horizontal combination of competing drug lines, vertical movement backward into the production of basic chemicals, forward movement, not only into the wholesaling of drug products, but also into the operation of chains of retail drug stores, and now conglomerate movement into a wide variety of different manufacturing fields.

An outstanding example of this recent movement is provided by the American Home Products Co. Incorporated in 1926 by interests identified with Sterling Products, Inc.,[55] this corporation has pursued a consistent policy of acquiring competitors, companies engaged in auxiliary lines of activity, and firms in extraneous lines. Since its incorporation, it has acquired no less than 60 formerly independent companies, of which 32 have been purchased since 1940. Many of the firms which it has acquired were not only leaders in their own particular fields, but were, themselves, the products of earlier mergers and consolidations.

American Home Products has regularly pointed out to its stockholders that it is following a "continuing policy of expansion and diversification" through purchase and acquisition of other companies. The extent of this diversification is suggested by a mere listing of some of the most widely known brands picked up in the course of the corporation's acquisition drive—Bi So Dol, Kolynos, Anacin, Old English Wax, Three-in-One Oil, Clapp's Baby Food, Duff's Baking Mix, G. Washington Coffee, Chef Boy-Ar-Dee Spaghetti Dinner, etc. As an indication of the importance of acquisitions to the company's growth, its own annual report for 1947 pointed out that the companies acquired since December 31, 1935 (and many had been acquired prior to that time) were responsible for more than 59 percent of the firm's total sales in its most recent year's operations.

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[49] Ibid. p. 12.

[50] In the order mentioned, these were: Imperial Diesel Engine Co. acquired the Modern Can Machinery Co.; Ex-Cell-O Corp. bought the American Paper Bottle Co.; and Eureka Vacuum Cleaner Co. merged with Williams Oil-O-Matic Heating Corp.

[51] Examples in the order named are: Curtiss-Wright purchased the Victor Animatograph Corp.; Avco Corp. acquired the radio, household equipment, and radio-station business of Crosley Corp., as well as New Idea, Inc., a farm-implement company; and Solar Aircraft acquired the Hubbard Casket Manufacturing Co.

[52] Creameries of America, Inc., is truly a conglomerate organization, since it not only distributes milk at wholesale and retail in the Western States, but also sells hay, grain, and feed in the Hawaiian Islands, and, by purchasing the Hawaii Brewing Corp., has entered the manufacture and distribution of beer.

[53] General Foods acquired Bireley's, Inc., a processor of citrus-fruit beverages, and the Gaines Food Co., Inc., one of the largest manufacturers of dry dog food. Both of these products were new to the General Foods line.

Standard Brands entered the margarine business for the first time by acquiring Standard Margarine Co., Inc. Standard Margarine was one of the three largest producers of margarine in the United States, and its Blue Bonnet line included salad dressings, peanut butter, sandwich spread, and allied products; its Indianapolis plant is reputed to have the largest production capacity of any plant in the margarine industry. (Cf. Food Field Reporter, January 4, 1943, p. 2.) Standard Brands also bought out Strong, Cobb & Co., a pharmaceutical manufacturer, and through its subsidiary, Fleischmann Distilling Corp., acquired additional distillers and a cooperage company. A looser type of relationship between unrelated lines is illustrated by Consolidated Grocers Corp. This company has achieved a dominant position in several important cities in the wholesale grocery trade. In June, 1947, the chairman of its board acquired control of Associated Products Inc., a cosmetic firm. The transaction was reported in Moody's Industrials as an acquisition by the company itself. (Cf. Moody's Industrials—Section 1, June 18, 1947, p. 2815.)

[54] Standard Oil of California acquired the California Spray Chemical Corp.; Red Bank Oil Co. acquired the Dedman Foundry & Machine Co. (cotton presses); and Panhandle Producing & Refining Co. acquired Miller Marine Decking, Inc.

[55] Five of the eleven largest drug corporations in the country—Rexall Drug, Inc. (formerly United Drug Co.), American Home Products, Sterling Drug, Inc., Bristol-Myers Co., and Vick Chemical Co.—stem from the so-called Sterling group. These five companies together, in 1942, accounted for 29 percent of the total sales in the drug industry, as reported to the Bureau of Internal Revenue. (Cf. 79th Cong., Senate Small Business Committee, Economic Concentration and World War II, p. 204.)

Truly diversified and far-flung, American Home Products Corp.'s operations are carried on by some 50 companies and divisions producing, in all, approximately 5,000 products. In the United States and Canada it has 37 manufacturing plants, 33 research and control laboratories and 46 operational centers. Its distribution network encircles the globe, functioning through 24 wholly owned foreign subsidiaries, with principal offices in London, Buenos Aires, Sydney, Auckland, Mexico City, Dublin, Calcutta, and Durban, South Africa.[56]

The conglomerate nature of American Home Products' recent acquisitions is indicated in the accompanying chart (Chart 13). On a horizontal plane, it has bought out firms manufacturing pharmaceuticals, biologicals, vitamins, and even veterinary products. Its conglomerate acquisitions have extended the firm's activities into food specialties, waxes and polishes, dyes and paints, insecticides, cosmetics, and other lines. As an indication of the extent of the company's diversification, only slightly more than half (58 percent) of its business in 1947 was derived from the sale of ethical and packaged drugs. The balance was divided among foods (25 percent), household products (10 percent), colors and dyes (5 percent) and cosmetics (2 percent.)[57]

Among its more important acquisitions since 1940 have been the following: In the ethical drug field, American Home Products purchased two outstanding firms—International Vitamin Corp. and Miller Wholesale Drug Co.—which gave it a strong position in the manufacture and distribution of vitamin products. Coverage in this field was further broadened by the acquisition in March 1943 of Ayerst, McKenna & Harrison, Ltd., and its subsidiary, engaged in the manufacture and sale of hormone, biological, vitamin, and pharmaceutical products.[58] Operations in the biological field were extended through the purchase of Reichel Laboratories [59] and the Gilliland Laboratories, Inc.

In the field of veterinary pharmaceuticals, A. H. P. made two major acquisitions, of which the most important was Fort Dodge Serum Co. (Fort Dodge, Iowa), one of the country's leading manufacturers and distributors of veterinary products.

Having entered the food field just prior to the war by acquiring the S. M. A. Corp., manufacturer of infants' food, as well as the capital stock of Harold H. Clapp, Inc., one of the country's leading manufac-

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[56] Sales Management, May 1, 1945, p. 36.

[57] American Home Products Corp., 22 Annual Report, 1947, p. 3.

[58] The parent company is a leading factor in the Canadian hormone and vitamin field. The subsidiary (now also directly owned by the American Home Products Corp.) operates in the United States, where activities are being substantially expanded, particularly in hormones, and an organization is being built up specially adapted to the promotion of ethical drug specialties.

[59] Subsequent to acquisition, this subsidiary has become an important manufacturer of penicillin.

REDUCTION
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1.5 mm
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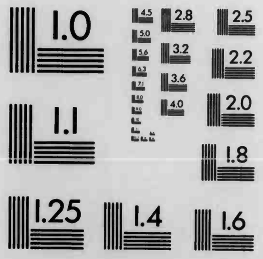
PM-MGP 13"x18"
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC

200 mm

150 mm

100 mm



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A5

A4

A3

PRECISION℠ RESOLUTION TARGETS

Century
A&P
1303 Geneva Avenue
St. Paul, MN 55119

4.5 mm
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abcdefghijklmnopqrstuvwxyz
1234567890

3.5 mm
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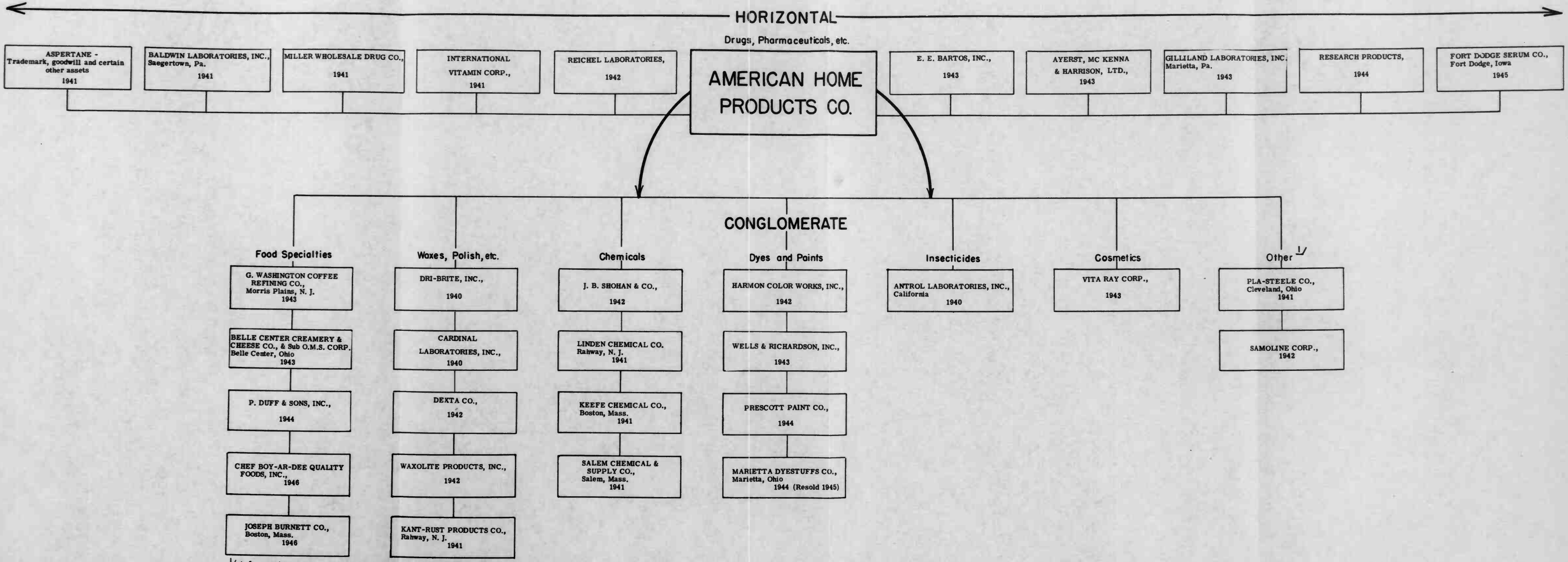
Chart 13

CONGLOMERATE AND OTHER ACQUISITIONS OF THE AMERICAN HOME PRODUCTS CO.

1940 – 1947


HORIZONTAL
Drugs, Pharmaceuticals, etc.
ASPERTANE - Trademark, goodwill and certain other assets 1941
BALDWIN LABORATORIES, INC., Saegertown, Pa. 1941
MILLER WHOLESALE DRUG CO., 1941
INTERNATIONAL VITAMIN CORP., 1941
REICHEL LABORATORIES, 1942
AMERICAN HOME PRODUCTS CO.
E. E. BARTOS, INC., 1943
AYERST, MC KENNA & HARRISON, LTD., 1943
GILLILAND LABORATORIES, INC. Marietta, Pa. 1943
RESEARCH PRODUCTS, 1944
FORT DODGE SERUM CO., Fort Dodge, Iowa 1945
CONGLOMERATE
Food Specialties
G. WASHINGTON COFFEE REFINING CO., Morris Plains, N. J. 1943
BELLE CENTER CREAMERY & CHEESE CO., & Sub O.M.S. CORP. Belle Center, Ohio 1943
P. DUFF & SONS, INC., 1944
CHEF BOY-AR-DEE QUALITY FOODS, INC., 1946
JOSEPH BURNETT CO., Boston, Mass. 1946
Waxes, Polish, etc.
DRI-BRITE, INC., 1940
CARDINAL LABORATORIES, INC., 1940
DEXTA CO., 1942
WAXOLITE PRODUCTS, INC., 1942
KANT-RUST PRODUCTS CO., Rahway, N. J. 1941
Chemicals
J. B. SHOHAN & CO., 1942
LINDEN CHEMICAL CO. Rahway, N. J. 1941
KEEFE CHEMICAL CO., Boston, Mass. 1941
SALEM CHEMICAL & SUPPLY CO., Salem, Mass. 1941
Dyes and Paints
HARMON COLOR WORKS, INC., 1942
WELLS & RICHARDSON, INC., 1943
PRESCOTT PAINT CO., 1944
MARIETTA DYESTUFFS CO., Marietta, Ohio 1944 (Resold 1945)
Insecticides
ANTROL LABORATORIES, INC., California 1940
Cosmetics
VITA RAY CORP., 1943
Other [1]
PLA-STEELE CO., Cleveland, Ohio 1941
SAMOLINE CORP., 1942

[1] Information concerning principal products of these companies not available.

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION*

REDUCTION
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1234567890

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abcdefghijklmnopqrstuvwxyz1234567890

1.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
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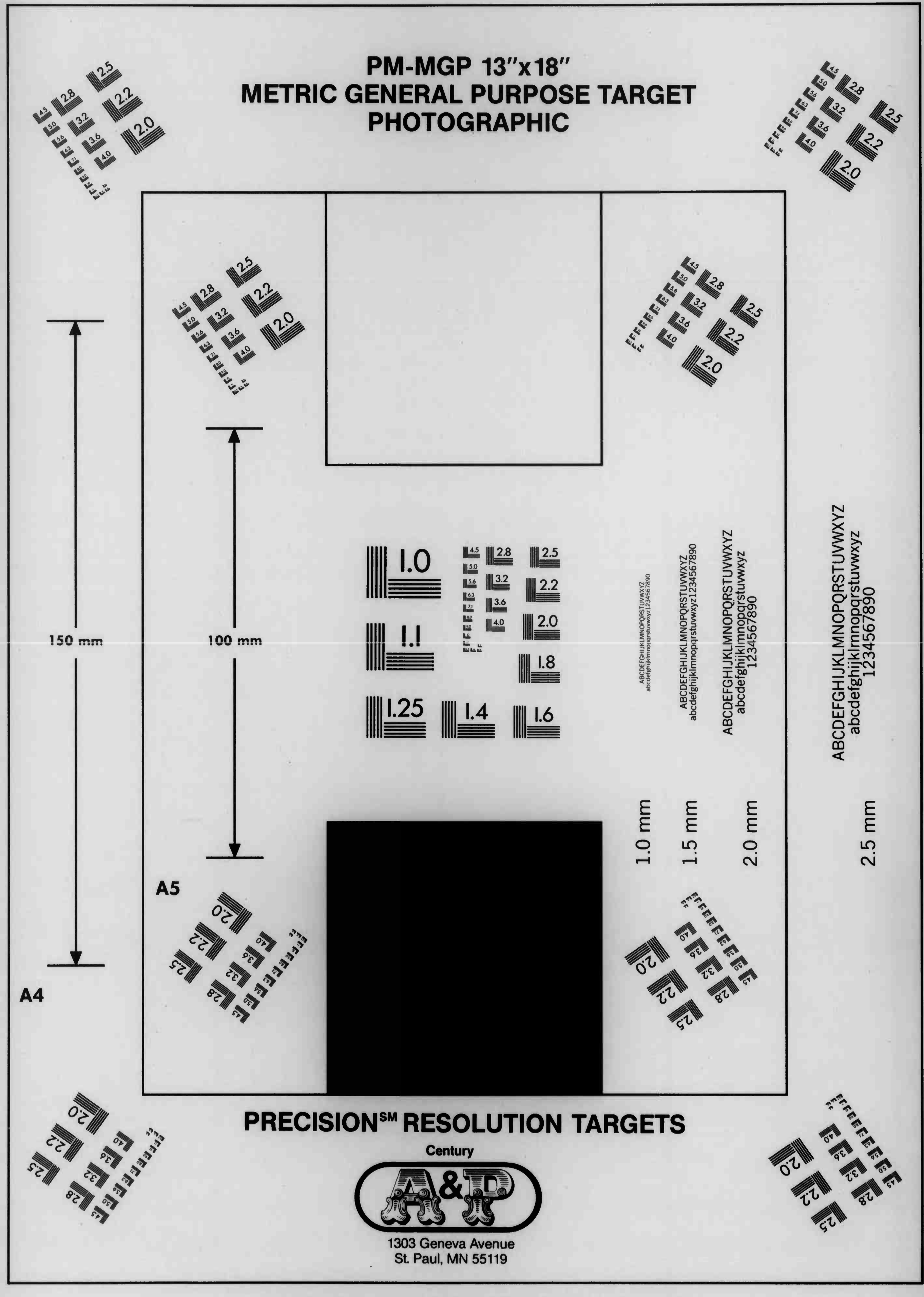
PM-MGP 13″x18″
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC


2.5
2.2
2.0
2.8
3.2
3.6
4.0
4.5
5.0
5.6
1.0
1.1
1.25
1.4
1.6
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150 mm
100 mm
A5
A4
1.0 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ abcdefghijklmnopqrstuvwxyz1234567890
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2.0 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ abcdefghijklmnopqrstuvwxyz 1234567890
2.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ abcdefghijklmnopqrstuvwxyz 1234567890

PRECISION℠ RESOLUTION TARGETS

Century

A&P

1303 Geneva Avenue
St. Paul, MN 55119

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abcdefghijklmnopqrstuvwxyz
1234567890

3.5 mm ABCDEFGHIJKLMNOPQRSTUVWXYZ
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turers of baby foods, American Home Products expanded into the production and sale of soluble powdered coffee by acquiring the G. Washington Coffee Refining Co. and into the manufacture and distribution of prepared baking mixes by purchasing P. Duff & Sons, Inc.

On the surface, the purchase of the Belle Center Creamery & Cheese Co. seemed to carry the corporation quite far afield. However, this company served a threefold purpose: It provided a supply of milk sugar to be used in the A. H. P.'s infant foods; it gave the corporation a general line of dairy products; and it produced cheese for another subsidiary, the Chef Boy-Ar-Dee Quality Foods, Inc. Chef Boy-Ar-Dee and the Joseph Burnett Co., a leading producer and distributor of flavoring extracts and food colors, were acquired in 1946.

The household products field—including such items as floor waxes, polishes, dyes, and paints—represents still another area in which American Home Products has extended itself. Since 1940 no less than 11 separate firms in this field have been acquired, including the producers of Dextra (a metal polish), Diamond Dyes, Prescott (paints) and Antrol and Dwinn (insecticides), as well as five producers of floor waxes, polishes, etc.[60] By the purchase of Harmon Color Works, Inc., in 1942, American Home Products prepared for the postwar sales of pigments to the automobile industry. Harmon's activities were supplemented 2 years later through the acquisition of Marietta Dyestuffs Co., manufacturer of dyestuff intermediates (as well as drug intermediates). In 1945, however, this partial vertical expansion was abandoned, as Marietta Dyestuffs was resold to American Cyanamid Co.[61]

Through these and other acquisitions, American Home Products became an important manufacturer of a full line of germicides, disinfectants, deodorants, and insecticides, including the powerful DDT, for which the postwar market was viewed with great expectation.[62] Finally, the purchase of Vita Ray Corp. has carried American Home Products further into the cosmetic business, a field in which it has been active for many years.

TIE-IN ACQUISITIONS—DISTILLING

11

A type of merger which has become increasingly important during recent years is one which might be identified as the tie-in. In this type the transfer of the physical plant (or capital stock) is accompanied by, or even incidental to, the transfer of some other factor which is of outstanding economic value. Among these other factors may be such items as stocks of goods on hand, containers, brand names, good will, etc. During prosperous periods, such as the country has experienced since the outbreak of World War II, numerous acquisitions of this type are made, particularly for the purpose of obtaining goods which are in short supply.

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[60] American Home Products had entered this business as early as 1927, through the purchase of A. S. Boyle Co., manufacturers of the well-known Old English brand.

[61] The consideration was 30,500 shares of the American Cyanamid common plus a cash payment of approximately $390,000.

[62] While its color business was greatly contracted during the war, Harmon manufactured substantial quantities of antimalarial drugs and sulfathiozole, but has since discontinued these operations to resume full-scale production of pigments. Subsequent to its acquisition by American Home Products, Marietta supplied the Government with substantial quantities of DDT.

The acquisition drive inaugurated by the large distillers during the war affords a striking example of this tie-in type of merger activity. This drive took three principal forms, involving the purchase of (1) direct competitors in the distilling business, (2) tight cooperage companies, and (3) wineries. As a result of these acquisitions, the large distillers substantially enhanced their position in terms of inventories of aging whiskeys, took over virtually the entire tight cooperage industry, and absorbed wineries whose storage capacity represented nearly one-fourth of California's total wine output and which held approximately half of all the wines then aging.[63]

With few exceptions, the acquisitions through which this concentration was achieved were motivated by a desire to obtain something else than a mere plant or capital stock. In the case of the purchases of distillers, the something else consisted of aging whiskeys and other spirits which were acutely needed by the large distillers, whose production of liquor had been restricted during the war and who found themselves confronted with an enormous postwar demand for distilled spirits. As an additional something else they picked up in these acquisitions brand names of well-established straight whiskeys or blends of straight whiskey, some of which were then used to facilitate the sale of blended whiskeys containing neutral spirits.

In the case of the purchase of tight cooperage facilities, it is apparent that the distillers were motivated not so much by a desire to make this a captive industry as by the competitive necessity of securing whiskey barrels. Without whiskey barrels, whiskey cannot be aged, and without aged whiskey to sell, the large distillers would soon have found themselves in an extraordinarily difficult position. It should be noted that the distillers, as owners of the tight cooperage facilities, were able to purchase white oak, the chief raw material used in the manufacture of barrels, at prices which the independent cooperage firms could not meet. This had the dual effect of inducing the independent cooperage firms to sell out and at the same time making it difficult for any distiller to operate without a captive cooperage plant of its own.

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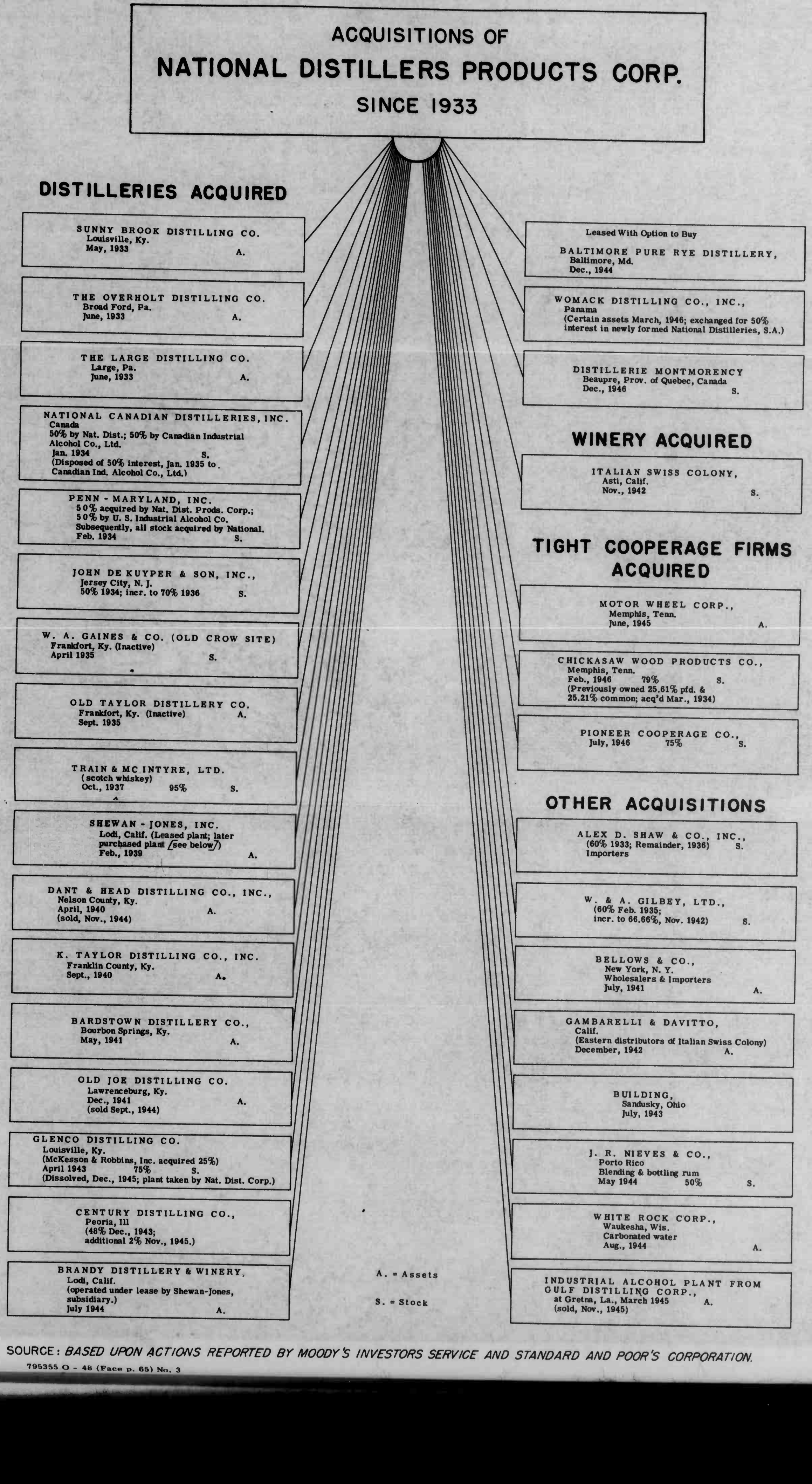
[63] Cf. Fortune, The Big Wine Deal, September 1943.

Chart 16



ACQUISITIONS OF
NATIONAL DISTILLERS PRODUCTS CORP.
SINCE 1933

DISTILLERIES ACQUIRED

SUNNY BROOK DISTILLING CO.
Louisville, Ky.
May, 1933 A.

THE OVERHOLT DISTILLING CO.
Broad Ford, Pa.
June, 1933 A.

THE LARGE DISTILLING CO.
Large, Pa.
June, 1933 A.

NATIONAL CANADIAN DISTILLERIES, INC.
Canada
50% by Nat. Dist.; 50% by Canadian Industrial Alcohol Co., Ltd.
Jan. 1934 S.
(Disposed of 50% interest, Jan. 1935 to Canadian Ind. Alcohol Co., Ltd.)

PENN - MARYLAND, INC.
50% acquired by Nat. Dist. Prods. Corp.;
50% by U. S. Industrial Alcohol Co.
Subsequently, all stock acquired by National.
Feb. 1934 S.

JOHN DE KUYPER & SON, INC.,
Jersey City, N. J.
50% 1934; incr. to 70% 1936 S.

W. A. GAINES & CO. (OLD CROW SITE)
Frankfort, Ky. (Inactive)
April 1935 S.

OLD TAYLOR DISTILLERY CO.
Frankfort, Ky. (Inactive) A.
Sept. 1935

TRAIN & MC INTYRE, LTD.
(scotch whiskey)
Oct., 1937 95% S.

SHEWAN - JONES, INC.
Lodi, Calif. (Leased plant; later purchased plant [see below])
Feb., 1939 A.

DANT & HEAD DISTILLING CO., INC.,
Nelson County, Ky.
April, 1940 A.
(sold, Nov., 1944)

K. TAYLOR DISTILLING CO., INC.
Franklin County, Ky.
Sept., 1940 A.

BARDSTOWN DISTILLERY CO.,
Bourbon Springs, Ky.
May, 1941 A.

OLD JOE DISTILLING CO.
Lawrenceburg, Ky.
Dec., 1941 A.
(sold Sept., 1944)

GLENCO DISTILLING CO.
Louisville, Ky.
(McKesson & Robbins, Inc. acquired 25%)
April 1943 75% S.
(Dissolved, Dec., 1945; plant taken by Nat. Dist. Corp.)

CENTURY DISTILLING CO.,
Peoria, Ill
(48% Dec., 1943;
additional 2% Nov., 1945.)

BRANDY DISTILLERY & WINERY,
Lodi, Calif.
(operated under lease by Shewan-Jones, subsidiary.)
July 1944 A.

Leased With Option to Buy
BALTIMORE PURE RYE DISTILLERY,
Baltimore, Md.
Dec., 1944

WOMACK DISTILLING CO., INC.,
Panama
(Certain assets March, 1946; exchanged for 50% interest in newly formed National Distilleries, S.A.)

DISTILLERIE MONTMORENCY
Beaupre, Prov. of Quebec, Canada
Dec., 1946 S.

WINERY ACQUIRED

ITALIAN SWISS COLONY,
Asti, Calif.
Nov., 1942 S.

TIGHT COOPERAGE FIRMS ACQUIRED

MOTOR WHEEL CORP.,
Memphis, Tenn.
June, 1945 A.

CHICKASAW WOOD PRODUCTS CO.,
Memphis, Tenn.
Feb., 1946 79% S.
(Previously owned 25.61% pfd. & 25.21% common; acq'd Mar., 1934)

PIONEER COOPERAGE CO.,
July, 1946 75% S.

OTHER ACQUISITIONS

ALEX D. SHAW & CO., INC.,
(60% 1933; Remainder, 1936) S.
Importers

W. & A. GILBEY, LTD.,
(60% Feb. 1935;
incr. to 66.66%, Nov. 1942) S.

BELLOWS & CO.,
New York, N. Y.
Wholesalers & Importers
July, 1941 A.

GAMBARELLI & DAVITTO,
Calif.
(Eastern distributors of Italian Swiss Colony)
December, 1942 A.

BUILDING,
Sandusky, Ohio
July, 1943

J. R. NIEVES & CO.,
Porto Rico
Blending & bottling rum
May 1944 50% S.

WHITE ROCK CORP.,
Waukesha, Wis.
Carbonated water
Aug., 1944 A.

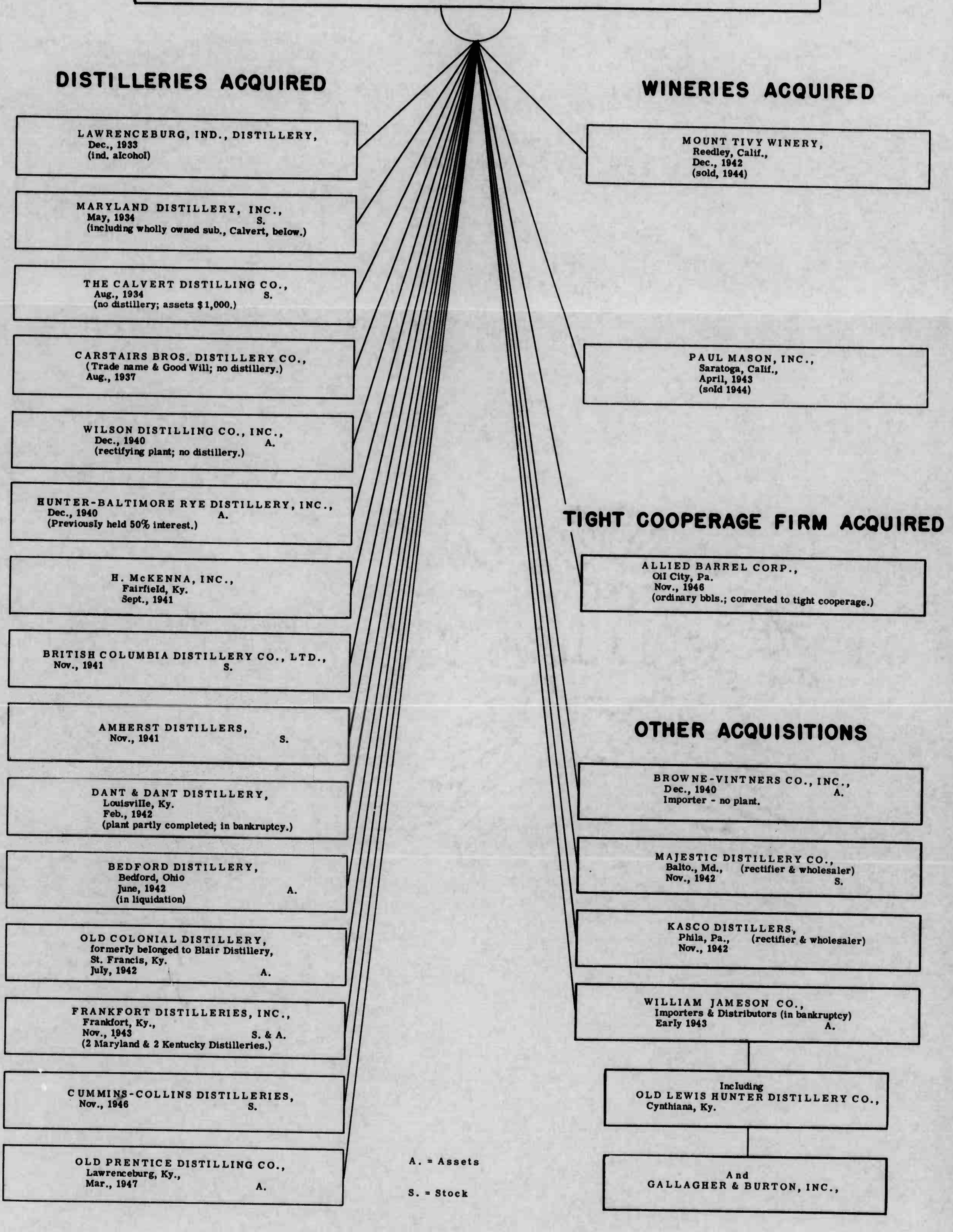
INDUSTRIAL ALCOHOL PLANT FROM GULF DISTILLING CORP.,
at Gretna, La., March 1945 A.
(sold, Nov., 1945)

A. = Assets
S. = Stock

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

Chart 15

ACQUISITIONS OF
DISTILLERS CORP.-SEAGRAMS LIMITED
SINCE 1933



DISTILLERIES ACQUIRED

LAWRENCEBURG, IND., DISTILLERY,
Dec., 1933
(ind. alcohol)

MARYLAND DISTILLERY, INC.,
May, 1934 S.
(including wholly owned sub., Calvert, below.)

THE CALVERT DISTILLING CO.,
Aug., 1934 S.
(no distillery; assets $1,000.)

CARSTAIRS BROS. DISTILLERY CO.,
(Trade name & Good Will; no distillery.)
Aug., 1937

WILSON DISTILLING CO., INC.,
Dec., 1940 A.
(rectifying plant; no distillery.)

HUNTER-BALTIMORE RYE DISTILLERY, INC.,
Dec., 1940 A.
(Previously held 50% interest.)

H. McKENNA, INC.,
Fairfield, Ky.
Sept., 1941

BRITISH COLUMBIA DISTILLERY CO., LTD.,
Nov., 1941 S.

AMHERST DISTILLERS,
Nov., 1941 S.

DANT & DANT DISTILLERY,
Louisville, Ky.
Feb., 1942
(plant partly completed; in bankruptcy.)

BEDFORD DISTILLERY,
Bedford, Ohio
June, 1942 A.
(in liquidation)

OLD COLONIAL DISTILLERY,
formerly belonged to Blair Distillery,
St. Francis, Ky.
July, 1942 A.

FRANKFORT DISTILLERIES, INC.,
Frankfort, Ky.,
Nov., 1943 S. & A.
(2 Maryland & 2 Kentucky Distilleries.)

CUMMINS-COLLINS DISTILLERIES,
Nov., 1946 S.

OLD PRENTICE DISTILLING CO.,
Lawrenceburg, Ky.,
Mar., 1947 A.

WINERIES ACQUIRED

MOUNT TIVY WINERY,
Reedley, Calif.,
Dec., 1942
(sold, 1944)

PAUL MASON, INC.,
Saratoga, Calif.,
April, 1943
(sold 1944)

TIGHT COOPERAGE FIRM ACQUIRED

ALLIED BARREL CORP.,
Oil City, Pa.
Nov., 1946
(ordinary bbls.; converted to tight cooperage.)

OTHER ACQUISITIONS

BROWNE-VINTNERS CO., INC.,
Dec., 1940 A.
Importer - no plant.

MAJESTIC DISTILLERY CO.,
Balto., Md., (rectifier & wholesaler)
Nov., 1942 S.

KASCO DISTILLERS,
Phila, Pa., (rectifier & wholesaler)
Nov., 1942

WILLIAM JAMESON CO.,
Importers & Distributors (in bankruptcy)
Early 1943 A.

Including
OLD LEWIS HUNTER DISTILLERY CO.,
Cynthiana, Ky.

And
GALLAGHER & BURTON, INC.,

A. = Assets
S. = Stock

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION*

795355 O - 48 (Face p. 65) No. 2

Chart 14

ACQUISITIONS OF SCHENLEY DISTILLERS CORP. SINCE 1933

DISTILLERIES ACQUIRED

NEW ENGLAND DISTILLING COMPANY
May, 1935 S.
Rum

BERNHEIM DISTILLING CO.
Louisville, Ky.
March 1937 S. & A.
(210,000 shares of common stock)

OLDETYME DISTILLERS CORP.
May, 1940 A.

Inventory of Bulk Whiskies, Trade-marks & Good Will of Case-goods Business From
MERCHANTS DISTILLING CORP.,
May 1941

JOHN A. WATHEN DISTILLERY CO.,
Lebanon, Ky.
July, 1941 A.

BUFFALO SPRINGS DISTILLING CO.,
Stamping Ground, Ky.
Nov., 1941 A.

GEORGE BENZ SONS, INC.,
St. Paul, Minn.
Nov. 1942 A.

QUEBEC DISTILLERS, INC.,
Feb. 1945 (Canadian) S.

YANKTON INDUSTRIAL ALCOHOL CORP.
Yankton, S. Dakota
Aug. 1945

AMERICAN SPIRITS, INC. (MD.)
(50%*)
Oct. 1945 S.
*Other 50% deposited under agreement of purchase.

COMPANIA RON CARIOCA DESTILERIA, INC.
Porto Rico
(50%*)
Oct. 1945 S.
*Other 50% deposited under agreement of purchase.

FAIRFIELD DISTILLERY, INC.
Oct. 1945 A.

PEBBLEFORD DISTILLERY CO.
Wilder, Ky.
Jan. 1946 S.

MASSACHUSETTS CONSOLIDATED DISTILLERIES, INC.
E. Taunton, Mass.
June 1946 S.

DOWLING BROS. DISTILLERY CO.,
Burgin, Ky.
Nov. 1946 S.

H. E. POGUE DISTILLERY CO.
Maysville, Ky.
Aug. 1948

BREWERY ACQUIRED

BLATZ BREWING CO.,
Milwaukee, Wis.
Beer
Dec. 1943 S.

WINERIES ACQUIRED

CRESTA BLANCA WINE CO.
Dec. 1940 A.

ROMA WINE CO.,
Fresno, Calif.
Nov. 1942 S.

SCHROEDER & DE CONSTANS
(Bordeaux, France)
Nov. 1945 75% S.

CORDIALS ACQUIRED

MANY, BLANC & CO., INC.,
April 1945 S.
Cordials and liqueurs

PRODUCTOS KAHLUA S. A.
June 1946 A.
Mexican cordial

TIGHT COOPERAGE FIRMS ACQUIRED

LOUISVILLE COOPERAGE CO.,
Louisville, Ky.
(remaining outstanding stock)
Dec., 1944 S.

CHESS & WYMOND, INC.
Louisville, Ky.
2nd quarter, 1946. App. 98% S.

OTHER ACQUISITIONS

GEO. A. DICKEL & CO.
Mar. 1937 A.
Brand name "Cascade" and formula.

C. B. BAKER CO.
Nov. 1942 (Whiskey) S.

PARAMOUNT LIQUOR CO., INC.
July 1946 A.

SUGAR HILL COMPANY
July 1946 (Whiskey) S.

WILLOW SPRINGS DIST. CO.
July 1946 (Whiskey) S.

OLD SPRING DIST. CO.
July 1946 (Whiskey) S.

HERBERT MARSHALL CORP.
July 1946 (Whiskey) S.

DOHORO CORPORATION
July 1946 (Whiskey) S.

A. = Assets
S. = Stock

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

In still a third direction, the distillers moved into the wine industry and bought up a number of major winery concerns in California. Here the something else was a supply of some type of beverage with which to supply their distributors during the period of wartime shortages. Incidentally, another significant development in the preemption of supplies was the signing of long-term exclusive distribution contracts between large eastern concerns and some of the major wineries.[64]

The acquisitions of the Big Four [65] distillers clearly illustrate these tendencies. Since 1940 Schenley Distillers Corp., largest of the group, has absorbed no less than 15 other distillers. (See chart 14.) By way of contrast, Schenley had purchased only two distillers in the 4-year period, 1935–39. The importance of obtaining aging stocks as a motive in these acquisitions is suggested by the case of Merchants Distillers Corp., in which Schenley's purchase was confined to inventory of bulk whiskey, trade-marks, and control of the firm's case-goods business. In addition to its acquisitions of distilleries, Schenley also bought up two tight cooperage concerns located in Louisville, Ky. Among its other acquisitions were the Blatz Brewing Co., a large Milwaukee concern, two cordial concerns, and eight other firms.

Distillers Corp.-Seagrams, Ltd., was also active in acquiring not only distilleries, but also wineries, tight cooperage and other concerns. (See chart 15.) One of Seagram's most significant acquisitions was Frankfort Distillers, Inc., of Frankfort, Ky., one of the five largest independents (i. e., smaller than the Big Four). Frankfort not only was a leading competitor of Seagrams, but also possessed a number of very popular brand names, such as Four Roses and Paul Jones, which were exploited in the sale of blends.[66] Although Seagrams disposed of its wineries in 1944, it has continued to operate the Allied Barrel Corp., which had been converted to the production of tight cooperage.

Similarly, National Distillers Products Corp. has a long record of acquisitions of competitive distilleries. (See chart 16.) Its recent important acquisitions include the Bardstown Distilleries Co. and the

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[64] Typical of such arrangements was the exculsive 5-year distribution contract signed by McKesson & Robbins for the Padre wines, produced and bottled by the Padre Vinyard Co. McKesson & Robbins also acquired distribution rights on similar terms from the firm of L. N. Renault & Sons, operating wineries in both California and New Jersey. Canada Dry, which has been selling both wine and ginger ale, is now the exclusive distributor for the I. V. C. Wines of the Italian Vinyard Co. at Guasti, Calif. In addition, during the war, some of the wine bottling and distributing firms bought independent wineries themselves to manufacture their supply of wines for distribution.

[65] In this report the term "Big 4" as applied to the liquor industry, is used in its traditional and customary sense as including National Distillers Prod. Corp., Distillers, Corp.-Seagrams, Ltd., Schenley Distillers Corp., and Hiram Walker-Gooderman & Worts, Ltd., although in recent years a different firm, Publicker, has become one of the four largest liquor producers.

[66] Prior to December 1941, both Four Roses and Paul Jones were blends of straight whiskey. At present, however, both are blended whiskeys, including 60 percent and 72.5 percent, respectively, of grain neutral spirits.

Glenco Distilling Co., both located in the heart of the Bourbon country in Kentucky. National acquired the Italian Swiss Colony Winery, as well as Gambarelli & Davitto, eastern distributors of Italian Swiss Colony. In addition, National acquired three tight cooperage firms, Bellows & Co., New York wholesalers and importers, and the White Rock Corp., one of the leading carbonated water firms.

Hiram Walker-Gooderman & Worts, Ltd. (see chart 17) has acquired three distilleries since 1940, as well as several wineries in California. Moreover, it is one of the few distillers that has extended its interests backward in the winery business beyond the mere acquisition of vineyards, acquiring two ranches in California to produce grapes, prunes, and walnuts. Like the other large distillers, this corporation acquired several cooperage firms, and also absorbed an important wine and liquor importer.

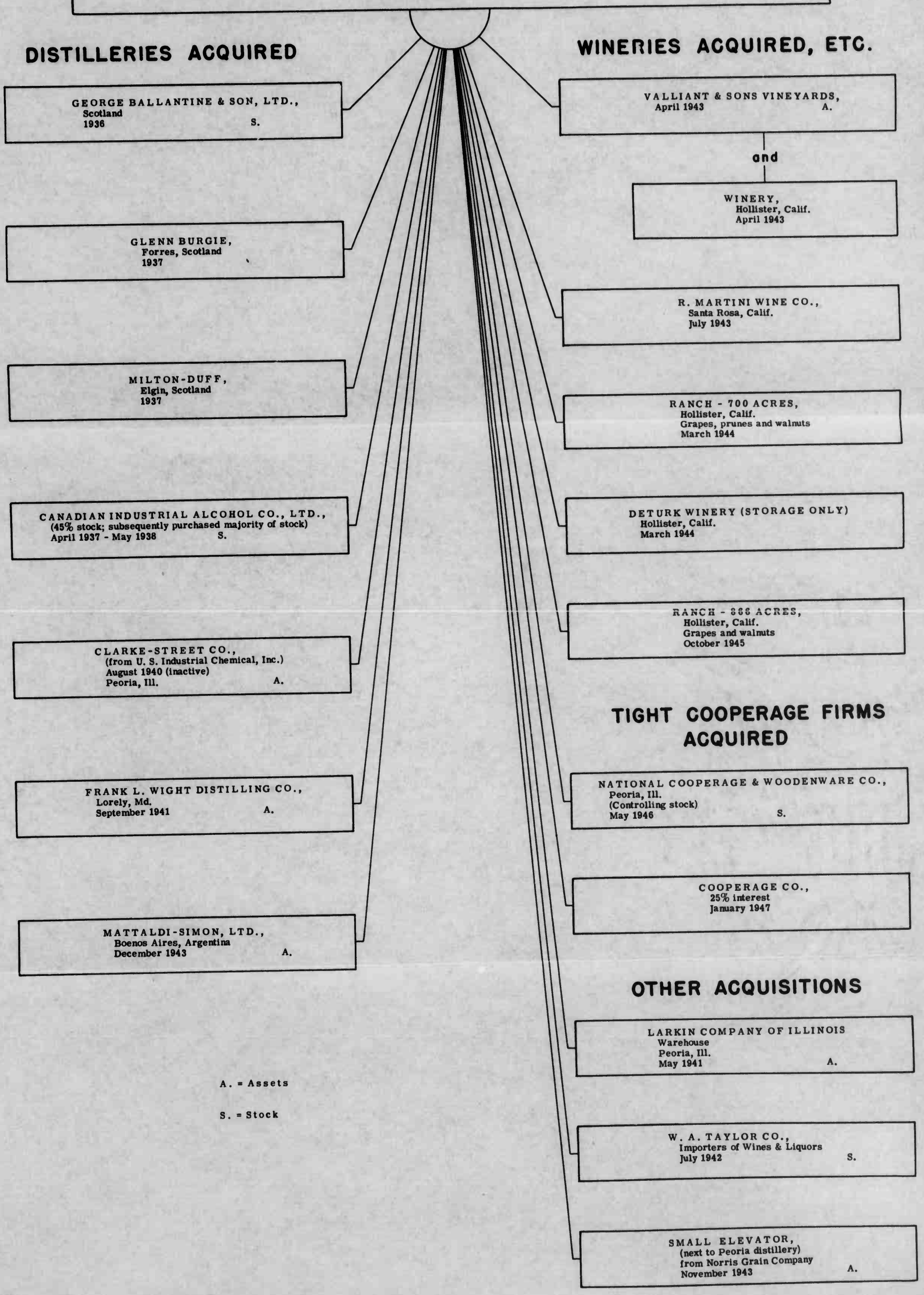
In addition to the absorption of two former strongholds of small business—the tight cooperage and whiskey distilling industries the principal effect of these acquisitions has been to give the Big Four distillers control over the supply of aging whiskey. This is illustrated in chart 18, which shows the production, total whiskey stocks, and the whiskey stocks 4-years-old and over, held by the large companies. Largely as a consequence of the conversion to industrial alcohol production during the war, the position of the Big Four, in terms of output of whiskey declined in favor of the next four largest producers. Thus, while the Big Four produced 61 percent of all the whiskey in 1941 and the next four produced 15 percent of the total, in 1946 the Big Four turned out 41 percent and the next four produced 29 percent of the total. However, the position of the Big Four was materially enhanced in terms of the ownership of whiskey stocks. From ownership of 55 percent of the total in 1941, their position rose to 63 percent in 1946. In terms of aged whiskey stocks, 4-years-old and over, their gains were even more striking. In 1941 the Big Four held 57 percent of the aged stocks; by 1946 they held no less than 75 percent of the total. The Big Four in 1946 held nearly as much aging whiskey as the entire industry possessed in 1941.

CONCLUSION

The ultimate significance of this loophole in the law lies in the question of the public interest. Under the theory of free, competitive capitalism, the public interest is assumed to be protected by the force of competitive enterprise—the "higgling of the market place," the "unseen hand of competition". The dictum, "That government is best which governs least", is founded upon the theory that no central regulatory government is needed to protect the public interest. Un-

Chart 17

ACQUISITIONS OF
HIRAM WALKER—GOODERMAN & WORTS, LTD.
SINCE 1933


DISTILLERIES ACQUIRED
GEORGE BALLANTINE & SON, LTD., Scotland 1936 S.
GLENN BURGIE, Forres, Scotland 1937
MILTON-DUFF, Elgin, Scotland 1937
CANADIAN INDUSTRIAL ALCOHOL CO., LTD., (45% stock; subsequently purchased majority of stock) April 1937 - May 1938 S.
CLARKE-STREET CO., (from U. S. Industrial Chemical, Inc.) August 1940 (inactive) Peoria, Ill. A.
FRANK L. WIGHT DISTILLING CO., Lorely, Md. September 1941 A.
MATTALDI-SIMON, LTD., Boenos Aires, Argentina December 1943 A.
A. = Assets
S. = Stock
WINERIES ACQUIRED, ETC.
VALLIANT & SONS VINEYARDS, April 1943 A.
and
WINERY, Hollister, Calif. April 1943
R. MARTINI WINE CO., Santa Rosa, Calif. July 1943
RANCH - 700 ACRES, Hollister, Calif. Grapes, prunes and walnuts March 1944
DETURK WINERY (STORAGE ONLY) Hollister, Calif. March 1944
RANCH - 866 ACRES, Hollister, Calif. Grapes and walnuts October 1945
TIGHT COOPERAGE FIRMS ACQUIRED
NATIONAL COOPERAGE & WOODENWARE CO., Peoria, Ill. (Controlling stock) May 1946 S.
COOPERAGE CO., 25% interest January 1947
OTHER ACQUISITIONS
LARKIN COMPANY OF ILLINOIS Warehouse Peoria, Ill. May 1941 A.
W. A. TAYLOR CO., Importers of Wines & Liquors July 1942 S.
SMALL ELEVATOR, (next to Peoria distillery) from Norris Grain Company November 1943 A.

SOURCE: *BASED UPON ACTIONS REPORTED BY MOODY'S INVESTORS SERVICE AND STANDARD AND POOR'S CORPORATION.*

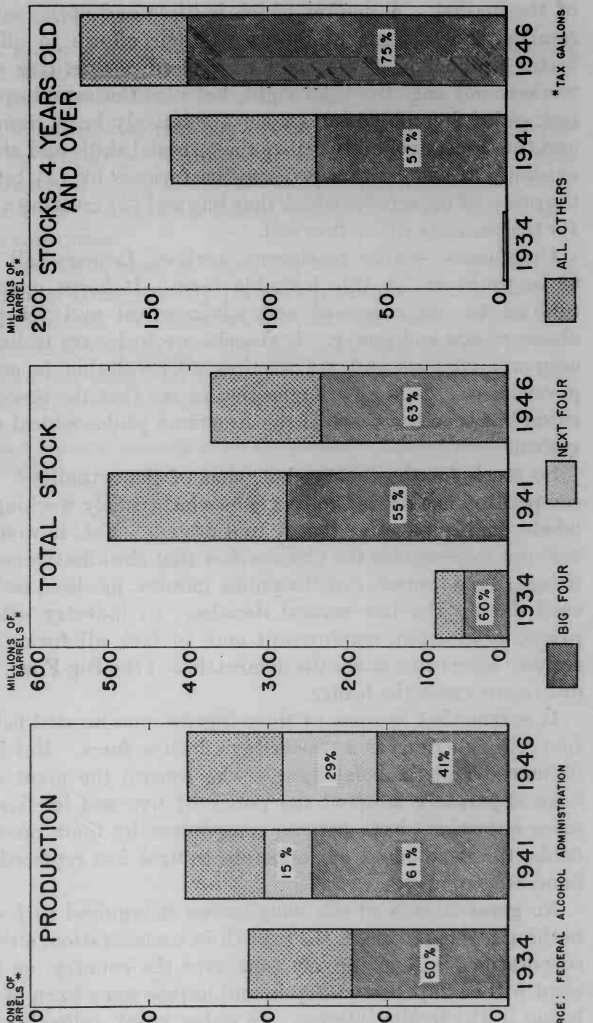


Chart 18

WHISKEY PRODUCTION, TOTAL STOCK AND STOCKS 4 YEARS OLD AND OVER

SOURCE: FEDERAL ALCOHOL ADMINISTRATION

der competitive capitalism consumers are protected from high prices by the constant rivalry among numerous firms for a greater share of the market. A market which is "free and open" safeguards the smaller, independent producers in their efforts to offer new and better products. A free and unfettered competitive system gives workers not only the legal right, but also the actual opportunity to seek gainful employment among a relatively large number of firms and thus most profitably utilize their special skills and abilities. The existence of competition protects the farmers by (*a*) bringing down the prices of the articles which they buy and (*b*) creating a mass market for the products which they sell.

Consumers, smaller producers, workers, farmers—all are assumed to be protected by this invisible force. It keeps open the opportunities for improvement and advancement and yet prevents the abuses of size and power. It absorbs revolutionary technological and economic changes and yet requires no revolution in our system of government. It is no exaggeration to say that the theory of competition has been the heart of the American philosophical and political system.

So much for the theory; but what of the actuality? In practice, competition has proved to be a somewhat crudely working but, on the whole, highly effective theory and system. Yet, it would be blindness not to recognize the obvious fact that the effectiveness of competition, as the protector of the public interest, has been seriously weakened during the last several decades. In industry after industry, prices, production, employment and, in fact, all forms of economic activity have come under the domination of the Big Four, the Big Six, or in some cases, the leader.

It is true that in some of these highly concentrated fields competition still functions as a reasonably effective force. But in others the industrial and financial figures who control the giant corporations have apparently adopted the policy of live and let live. Vigorous price reductions have become conspicuous by their rarity. In such fields, the dead hand of corporate control has replaced the unseen hand of competition.

No great stretch of the imagination is required to foresee that if nothing is done to check the growth in concentration, either the giant corporations will ultimately take over the country, or the Government will be impelled to step in and impose some form of direct regulation in the public interest. In either event, collectivism will have triumphed over free enterprise, and the theory of competition will have been relegated to the limbo of well-intentioned but ineffective ideals. This is a warning which the Commission has repeated time and again, and one which some of those who have the most to gain by the preservation of competition seem determined to ignore.

For example, in 1939 the Commission stated:

> The capitalist system of free initiative is not immortal, but is capable of dying and of dragging down with it the system of democratic government. Monopoly constitutes the death of capitalism and the genesis of authoritarian government.[67]

The Commission believes that the economic forces, on which it has been basing its warnings, require that a definite choice be made. Either this country is going down the road to collectivism, or it must stand and fight for competition as the protector of all that is embodied in free enterprise.

Crucial in that fight must be some effective means of preventing giant corporations from steadily increasing their power at the expense of small business. Therein lies the real significance of the proposed amendment to the Clayton Act, for without it the rise in economic concentration cannot be checked nor can the opportunity for a resurgence of effective competition be preserved.

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[67] 76th Congress, 1st session, Hearings before the Temporary National Economic Committee, Part 5, p. 2200.

Appendix I. EXTERNAL VS. INTERNAL GROWTH OF LARGE STEEL CORPORATIONS, 1915–45

In the following appendix the Commission presents a study of the extent to which the over-all expansion of eight of the country's largest integrated steel corporations, covering the period 1915–45,[1] has been due to external, as contrasted to internal growth. External growth takes place with the combining together of existing firms by means of acquisitions, mergers, consolidations, and through the creation of other types of combinations such as trusts and holding companies. Conversely, internal growth occurs through the building of new facilities or the expansion of existing properties, resulting from new construction, installation of new equipment, and other forms of capital expansion.

Conceptually, these two types of expansion are quite distinct, and little difficulty arises from considering them in the abstract.[2] However, certain difficulties arise when an attempt is made to separate these two forms of growth, on the basis of published statements of the corporations. In the first place, it is necessary to select from the several alternatives one measure of size. One possibility would be total assets, another might be net assets (total assets less current liabilities), and a third, total sales. For purposes of the present study, the second alternative was used, inasmuch as it reflects as nearly as possible the actual investment in the business.

Two difficulties were faced. In the first place, many corporations which were products of the era of consolidation were capitalized at values considerably in excess of their tangible values—the difference being made up of watered stock. The case of the United States Steel Corp. is well known. When the corporation was formed in 1901, it was capitalized at just double its tangible value. In subsequent years, this water was eliminated from the corporation's capital structure.

In order to avoid the anomalous result of showing a decline in assets of United States Steel at the same time that its actual size was growing, it was thought best to disregard completely the original watering and the subsequent dehydrating of the corporation, and consequently the change in its net assets was measured by eliminating these intangibles at the beginning of the period surveyed.

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[1] Except as otherwise indicated.

[2] As distinct from capital expansion itself, there are, of course, two sources of capital funds used in the process of expanding a particular business, namely (1) plowed-back earnings, and (2) new capital from the sale of securities, loans, etc.

A second problem was how to consider depreciation over the years. The balance sheet figures on net assets would, of course, allow for depreciation. However, if the capital of the various companies acquired were added up, they would be on a gross basis. Rather than attempt to measure the depreciation of the acquired properties, it was felt that the best approximation would be achieved by simply comparing the gross additions resulting from acquisitions against the over-all change in net assets before depreciation allowances.

The resulting figures, therefore, indicate roughly the proportion of the growth which may be traceable to external expansion, or through the acquisition of other properties. These figures contain three sources of understatement. In the first place, there is the matter of mergers and acquisitions that occurred prior to the period under review. The two outstanding cases were United States Steel Corp. and Bethlehem Steel Corp., both products of major consolidations prior to 1915. Similarly, while less spectacular, most of the other steel companies were, in part, the product of earlier mergers and consolidations.

Secondly, in numerous instances the purchase of an independent concern would result in an impairment of the capital of the acquiring concern, for the reason that a higher price was paid than the assessed valuation of the properties. Accountingwise, this procedure is no doubt correct. From an economic point of view, however, it seriously understates the effect of the transaction. In reality, the acquiring corporation is usually in a position to raise funds much greater than the purchase price of the acquired property, capitalizing on its good will.

Third, for the period under review, data were available only on 99 out of a total of 153 known acquisitions of the 8 large steel companies. To this extent, the measurement of the proportion of the growth since 1915 attributed to acquisitions is obviously understated.[3]

The following table shows the extent to which the over-all growth of the major steel companies was due to external expansion.

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[3] These general sources of understatement are, of course, in addition to those applying more specifically to the experience of the steel industry as an example, as discussed above. (Cf. footnote on p. 25 of this report.)

Relative importance of acquisitions in capital expansion of major steel companies, 1915–45

Company	Number of acquisitions	Number for which data are available	Total undepreciated additions to net assets		Percent of total increment in net assets due to acquisitions
			Total (in thousands)	Due to acquisitions (in thousands)	
U. S. Steel Corp	24	12	$1,699,139	$117,504	6.9
Bethlehem Steel Corp	40	33	1,185,101	395,629	33.4
Republic Steel Corp	21	13	495,695	315,996	63.8
Jones & Laughlin Steel Corp.[1]	19	13	257,367	40,384	15.7
Youngstown Sheet & Tube Co	4	4	360,044	102,530	28.5
Inland Steel Co.[2]	30	13	206,367	19,839	9.6
American Rolling Mill Co	12	8	246,489	49,197	20.0
Colorado Fuel & Iron Corp.[3]	3	3	51,919	21,725	41.8
Total	153	99	4,502,121	1,062,804	23.6

[1] Period covered, 1923–45, inclusive.

[2] Period covered, 1918–45, inclusive.

[3] Period covered, 1936–45, inclusive.

Source: Federal Trade Commission.

It will be noted that the total undepreciated addition to net assets for the eight companies from 1915 through 1945 amounted to over $4.5 billion. Of this total, at least $1.1 billion, or 23.6 percent, was due to external expansion, the proportions ranging from 63.8 percent for Bethlehem Steel Corp. to 6.9 percent for United States Steel Corp., while five of the eight companies could trace more than one-fifth of their growth to mergers and acquisitions.

The following pages present (*a*) a detailed description for each of the acquisitions for which information was obtained, and (*b*) tables for each of the corporations, listing these acquisitions, together with the amount of capital increment resulting therefrom.

UNITED STATES STEEL CORP.

Position in the industry.—United States Steel Corp., a holding company, through its subsidiaries is the largest steel producer in the United States, having an annual rated capacity for raw steel and castings on January 1, 1945, amounting to 32,307,000 net tons, or approximately 33.8 percent of the capacity of the entire industry. One of the corporation's subsidiaries is also the largest producer of cement, with an annual producing capacity of 33,590,000 barrels as of December 31, 1940.

Its major operations include: The production of a wide variety of finished and semifinished steel products; the production of cement; the fabrication and erection of steel structures such as bridges and buildings; the construction of ships, barges and railroad freight cars; the production and sale of pig iron and of miscellaneous products that are byproducts of, or closely related to, iron and steel manufacturing activities; the production of substantially all of the iron ore and limestone, most of the coal, and a part of the dolomite, zinc ore, fluorspar and manganese ore used in its own operations; the operation of coke ovens, which supply substantially all of the coke oven gas and tar used by the corporations; the generation of a major part of its electric power requirement; the operation of steamships, barges, and docks on the Great Lakes, and steamers, tugs, and barges on various rivers for the transportation of raw materials and finished and semifinished products; the operation of common carrier railroad lines transporting shipments between the properties of the mining and manufacturing subsidiaries; and the operation of steamships in intercoastal and foreign service, carrying products purchased or sold not only by the corporation's own subsidiaries but also the products for outside shippers.

Organization of United States Steel Corp.—United States Steel Corp., a holding company, was incorporated under the laws of the State of New Jersey on February 25, 1901, and immediately acquired practically the entire capital stocks of the Carnegie Co., Federal Steel Co., National Tube Co., American Steel & Wire Co. (New Jersey), National Steel Co., American Steel Hoop Co., American Sheet Steel Co., American Tin Plate Co., American Bridge Co., Lake Superior Consolidated Iron Mines, Shelby Steel Tube Co., also the entire issue of bonds of the Carnegie Co. and a one-sixth interest in the capital stock of Oliver Iron Mining Co. and of Pittsburgh Steamship Co. The other five-sixths interest in the stocks of the last-named two companies was owned by the Carnegie Co.

From time to time United States Steel Corp. or its subsidiaries acquired other independent enterprises until on December 31, 1944, it controlled about 132 subsidiary companies.

Acquisitions by United States Steel Corp.—From January 1, 1915, to the end of 1945, the United States Steel Corp. acquired control of about 24 independent enterprises. Information concerning 12 of these indicates that approximately 6.9 percent of the growth of the corporation during the period was derived from external expansion through the acquisition of other concerns.

In June 1920, the corporation acquired a controlling interest in the capital stock of Michigan Limestone & Chemical Co. The capital stock of Cyclone Fence Co. was purchased on August 1, 1924, and during July 1928 control of Northwest Fence & Wire Works was acquired by the purchase of its capital stock.

During 1930, the assets of Atlas Portland Cement Co., Columbia Steel Co., and Oil Well Supply Co. were acquired by United States Steel Corp. One of its subsidiaries purchased the assets of Jackson

Fence Co. on August 1, 1934, and, on December 27, 1935, the assets of Virginia Bridge & Iron Co. were acquired by another subsidiary.

In September 1936, another subsidiary acquired the capital stock of Gerrard Company, Inc. The corporation purchased all of the capital stock of Potter Ore Co. early in 1937. The assets of Boyle Manufacturing Company, Inc., were secured on July 1, 1939, and, on June 30, 1944, substantially all of Gunnison Housing Corp.'s outstanding capital stock was purchased.

Each of these 12 acquisitions is discussed in more detail in the following paragraphs.

Acquisition of stock control of Michigan Limestone & Chemical Co.—In June 1920, United States Steel Corp. acquired a controlling interest in the capital stock of Michigan Limestone & Chemical Co., for an undisclosed consideration. This company owned a large acreage of high-grade limestone located in Presque Isle County, Mich., together with a complete plant for quarrying, crushing, sorting, and shipping limestone. At the time of its acquisition approximately one-half of its output was being supplied to United States Steel Corp.'s subsidiaries.

The balance sheet of Michigan Limestone & Chemical Co. as of May 31, 1920, showed net assets amounting to $5,724,538.71, represented by a funded debt of $1,509,300, and stockholders' equity with a book value of $4,215,238.71.

During the year 1919, Michigan Limestone & Chemical Co.'s net sales amounted to $2,124,193.65; and its profit amounted to $271,984.15 before provision for income taxes or to $241,984.15 after deduction of that provision.

In comparison with the above-stated amounts, the net sales of United Steel Corp. for the year 1919 amounted to $1,448,557,835, its net income before provision for income taxes amounted to $137,351,891 and after deduction of that provision to $85,351,891.

Inasmuch as approximately one-half of the output of Michigan Limestone & Chemical Co. had been sold to the acquiring company's subsidiaries, the acquisition did not fully augment the sales volume of the United States Steel Corp.

Acquisition of the capital stock of Cyclone Fence Co.—On August 1, 1924, American Steel & Wire Co., a subsidiary of United States Steel Corp., acquired all of the capital stock of Cyclone Fence Co., which was engaged in the manufacture, under patented methods, of a variety of woven-wire fencing not then being produced by the acquiring organization. This company had operating plants at Waukegan, Ill., and Cleveland, Ohio.

There being no data available as to the acquired company's financial position as of August 1, 1924, or shortly prior thereto, it is assumed that the consideration paid, in the amount of $3,194,700, consisting of 5,007 shares of $100 par value preferred stock ($500,700) and $2,694,000 principal amount of bonds of United States Steel Corp., constituted an approximation of the book value of the equity acquired.

However, since the outstanding preferred stock of United States Steel Corp. remained constantly at 3,602,811 shares from December 31, 1903, through December 31, 1945, it is presumed that the 5,007 shares of $100 par value preferred stock, previously mentioned, were purchased in the market for an unrevealed amount of cash so that the estimated maximum value of the equity added by this acquisition was $2,694,000.

Acquisition of stock control of Northwest Fence & Wire Works.—In July 1928, the United States Steel Corp. group acquired a controlling interest in the capital stock of Northwest Fence & Wire Works, for an undisclosed consideration.

Northwest Fence & Wire Works had, as of March 31, 1928, net assets amounting to $76,531.69, all of which constituted the stockholders' equity. Information as to the acquired company's sales and profits for the year 1927 is lacking.

Acquisitions during 1930.—United States Steel Corp. acquired the properties, assets and business of the Atlas Portland Cement Co., Columbia Steel Co., and Oil Well Supply Co. during the year 1930.

As of January 9, 1930, United States Steel Corp. acquired the properties, assets and business of the Atlas Portland Cement Co. for 176,265 shares of its common stock. The latter company was incorporated in Pennsylvania on May 5, 1899, and on the date of its acquisition owned and operated six cement plants, located in six States, with a combined annual capacity of 18,000,000 barrels. It is reported that all of these plants were located in, and served, territories far removed from the territories in which were located the cement plants controlled by the acquiring corporation.

The consolidated balance sheet of The Atlas Portland Cement Co. and its subsidiaries as of December 31, 1929, showed net assets amounting to $45,922,532.75, represented by a long-term debt of $2,000, an outstanding minority interest in the capital stock and surplus of subsidiary companies of $38,185.23, and stockholders' equity of a book value of $45,882,347.52.

The total cash value of these assets, as appraised by the acquiring corporation, was established at not less than $31,137,000, or about 67.78 percent of their book values.

Based on the Atlas Portland Cement Co.'s net sales in the amount of $16,454,599.41 for the 9 months ended September 30, 1929, it is estimated that its net sales for the whole of that year amounted to about $21,939,465.88.

On January 31, 1930, the properties, assets and business of Columbia Steel Corp. were acquired by United States Steel Corp. The acquiring corporation appraised the cash value of these assets at not less than $41,375,000 and issued therefor 251,771 shares of its $100 par value common stock.

Columbia Steel Corp. owned and operated steel producing plants and rolling mills at Pittsburg and Torrance, Calif., a steel foundry at Portland, Oreg., and a blast furnace and byproduct coke plant at Provo, Utah. It also owned extensive iron ore, coal and limestone deposits in Utah.

It is reported that prior to this acquisition United States Steel Corp. had, for several years, considered the establishment of steel producing and manufacturing operations on the Pacific coast, to better serve its existing trade as well as to prepare for the future growth of both domestic and foreign trade by service from coast plants.

According to Columbia Steel Co.'s balance sheet as of February 1, 1930, the day after its acquisition, there were net assets in the amount of $41,732,036.08, represented by long-term debt of $157,036.08, contingent reserve of $200,000, and United States Steel Corp. purchase account in the amount of $41,375,000.

There are no available data as to the acquired company's net sales and profits for the year ended December 31, 1929.

On October 1, 1930, United States Steel Corp. acquired the assets and business of Oil Well Supply Co., which was one of the largest manufacturers of supplies for drilling oil and gas wells. In addition to its 7 manufacturing plants, it had 17 general repair shops and 89 distributing stores located throughout all oil- and gas-producing fields in the United States and Canada.

According to report, this acquisition furnished United States Steel Corp. an established organization operating throughout the United States and abroad as a medium for the distribution to consumers, and under the special conditions attaching to the development and operation of oil and gas properties, of a large quantity of steel pipe, wire rope, and other products of its subsidiary companies used in the oil and gas fields.

Oil Well Supply Co.'s balance sheet as of September 30, 1930, showed net assets amounting to $19,307,930.75, which were appraised at $19,057,930 by the acquiring corporation, and paid for by issuing 108,402 shares of United States Steel Corp's $100 par value common stock.

The acquired company's net sales amounted to $32,765,526.17 in 1927, to $33,594,701.02 in 1928, and to $35,714,431.03 in 1929; and its net income before provision for income taxes amounted to $696,780.39, $662,970.97, and $1,307,432.97 respectively, in these years, and after deduction of income taxes, to $613,166.74, $583,414.45, and $1,150,541.01, respectively.

While the assets acquired through these three acquisitions were set up on United States Steel Corp.'s records at their appraisal valuation of $91,570,335, their aggregate book valuation as independent enterprises amounted to $106,962,499.58. And this amount related to the $2,164,825,613 of capital of United States Steel Corp. at the beginning of the year constituted a capital increment of 4.94 percent.

As previously stated, Columbia Steel Co.'s net sales for 1929 were not reported and the Atlas Portland Cement Co.'s net sales for that year were estimated. Hence, the net sales for two of the acquired companies aggregated approximately $57,653,897, which, related to $1,493,505,485 of net sales by the acquiring corporation during the year 1929, indicates an addition to net sales volume of approximately 3.86 percent.

Acquisition of the assets of Jackson Fence Co.—On August 1, 1934, American Steel & Wire Co., a subsidiary of United States Steel Corp., purchased the assets of Jackson Fence Co. for an undisclosed consideration.

Jackson Fence Co. had, on June 30, 1934, net assets of $123,754.97, which compared with the $2,050,380,792 of capital of United States Steel Corp. as of December 31, 1933.

No data are available as to the acquired company's net sales and profits for the year preceding its acquisition.

Acquisition of the assets of Virginia Bridge & Iron Co.—On December 27, 1935, Tennessee Coal, Iron & Railroad Co., a subsidiary of United States Steel Corp., through Virginia Bridge Co., a subsidiary organized for the purpose, acquired the assets of Virginia Bridge & Iron Co. This company's properties consisted of fabricating plants, located in Virginia, Alabama, and Tennessee, having an annual productive capacity of approximately 100,000 tons of finished structural work, comprising railroad and highway bridges, office and mill buildings, hangars, pier sheds, and steel railroad cars.

A balance sheet of Virginia Bridge & Iron Co. as of December 31, 1934, showed net assets amounting to $3,327,539, all of which constituted the stockholders' equity.

For these assets the acquiring company paid $1,388,550 in cash. No information is available as to the net sales and profits of the acquired company.

Acquisition of stock control of Gerrard Co., Inc.—A controlling interest in the capital stock of Gerrard Co., Inc., was acquired by American Steel & Wire Co., a United States Steel Corp. subsidiary, during the fourth quarter of 1936 for an undisclosed consideration. This company, a customer of American Steel & Wire Co., was engaged in the manufacture and rental of wire strapping machines.

The balance sheet of Gerrard Co., Inc., as of December 31, 1936, after its acquisition, showed net assets in the amount of $514,881.43, all of which constituted the stockholders' equity. This equity compared with the $1,752,573,051 of capital of United States Steel Corp. at the beginning of that year.

During the year ended December 31, 1936, the acquired company's net sales amounted to $1,350,696.36, as compared with the $1,099,931,336 of net sales of United States Steel Corp. for the same year.

Acquisition of the capital stock of Potter Ore Co.—Tennessee Coal, Iron & Railroad Co., a United States Steel Corp. subsidiary, having owned one-half of the capital stock of Potter Ore Co. since 1907, purchased, on January 1, 1937, all of the remaining shares from Republic Steel Corp. for $283,913 in cash.

Potter Ore Co. had, on December 31, 1936, net assets of $23,190.96, represented by $5,000 of capital stock and accumulated profit or surplus of $18,190.96. Since the acquiring company owned a one-half interest, it is assumed that one-half of the value of the capital stock, or $2,500, constituted the amount of its investment. Thus net assets with a book valuation of $20,690.96 were acquired for a cash consideration of $283,913, resulting in a capital depletion of $263,913. The capital of the United States Steel Corp. as of that date amounted to $1,760,226,287.

Acquisition of the assets of Boyle Manufacturing Co., Inc.—On July 1, 1939, United States Steel Corp. acquired the properties and assets of Boyle Manufacturing Co., Inc., which manufactured steel barrels, drums, pails, buckets, heavy hollowware, garden tools, light receptacles, and specialties.

The balance sheet of Boyle Manufacturing Co., Inc., as of June 30, 1939, showed net assets amounting to $3,032,853.66.

Inasmuch as cash in the amount of $2,597,561 was the consideration paid for these net assets, the net addition to capital effected by this acquisition was only $435,292.66, which compared with the $1,628,775,798 of capital of the acquiring corporation at the beginning of that year. The acquired company's net sales for the year ended December 31, 1938, amounted to $2,407,524, which related to the $766,673,753 of net sales by the acquiring corporation for the same year.

Acquisition of the capital stock of Gunnison Housing Corp.—On June 30, 1944, United States Steel Corp. purchased all of the preferred stock and 2,120 out of a total of 2,900 shares of the outstanding common stock of Gunnison Housing Corp. for $921,503 in cash. And at the same time it also purchased, for $10, an option to purchase the remaining 780 shares of common stock.

This company was engaged in the manufacture and sale of prefabricated wooden houses. When this acquisition was made it was reported that United States Steel Corp., through the medium of this company, expected to further the use of steel in residential construction.

Gunnison Housing Corp.'s balance sheet as of June 30, 1944, showed net assets amounting to $217,930.14, all of which constituted the stockholders' equity. The company's net sales amounted to $546,984.69 in the year ended June 30, 1942, to $1,753,389.49 in 1943 and to $890,446.92 in 1944.

While United States Steel Corp. did not acquire quite all of the capital stock of Gunnison Housing Corp., the reported cost of $921,503 paid in cash was $703,573 more than the book value of the entire equity, and therefore decreased the net assets of the acquiring corporation by that amount.

The following table lists each of the 12 companies acquired by United States Steel Corp., together with the amount that each represented in terms of capital increment or impairment.

United States Steel Corp.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1920	Michigan Limestone & Chemical Co.[1]	$5,724,539
1924	Cyclone Fence Co.[1]	2,694,000
1928	Northwest Fence & Wire Works [1]	76,532
1930	The Atlas Portland Cement Co	45,922,533
1930	Columbia Steel Corp	41,732,036
1930	Oil Well Supply Co	19,307,931
1934	Jackson Fence Co	123,755
1935	Virginia Bridge & Iron Co	1,938,989
1936	Gerrard Company, Inc.[1]	514,881
1937	Potter Ore Co.[1]	[2] 263,222
1939	Boyle Manufacturing Co., Inc	435,293
1944	Gunnison Housing Corp.[1]	[2] 703,573
	Total	117,503,694

[1] Acquisition of capital stock.
[2] Capital impairment.

BETHLEHEM STEEL CORP.

Position in the industry.—Bethlehem Steel Corp., a holding company, was rated in 1945 as the second largest steel producer. Its eight major operations include: the manufacturing and selling of iron, steel, iron and steel products, coke, and coke byproducts; the construction and selling of steel passenger train, freight train, and mine cars; the fabricating, selling and erecting of steel for buildings, bridges, tanks, and other miscellaneous structures, the contracting for, and the building and repairing of, naval and merchant vessels, tugs, car floats, barges and other harbor craft; the mining and quarrying of ore, coal and limestone for the use of its subsidiaries; the transportation of ore, coal, grain, iron and steel products, lumber, and miscellaneous merchandise on the Great Lakes and in the coastal waters of the United States; the operation of short-line railroads; and the operation of certain public water-supply systems.

The combined rated capacities of the facilities of the corporations' subsidiaries are estimated at 12,900,000 net tons of steel ingots and castings, 8,358,000 net tons of coke, and 9,654,000 net tons of pig iron and ferromanganese per annum.

Organization of Bethlehem Steel Corp.—Bethlehem Steel Corp. (New Jersey), a holding company, was incorporated under the laws of the State of New Jersey on December 10, 1904, as the successor to United States Shipbuilding Co. and acquired the entire capital stocks of Bethlehem Steel Co., Harlan & Hollingsworth Corp., Union Iron Works Co., Samuel L. Moore & Sons Corp., Cartaret Improvement Co., Eastern Shipbuilding Corp., Crescent Ship Yard Corp., Bath Iron Works Co., and Hyde Windlass Co. Early in 1905 the plants of Bath Iron Works Co., and Hyde Windlass Co. were disposed of and in 1907 the plant of Eastern Shipbuilding Corp. was sold.

On July 1, 1919, Pacific Coast Steel Corp. was incorporated in Delaware and on January 15, 1936, its name was changed to Bethlehem Steel Corp. (Delaware).

On February 26, 1936, Bethlehem Steel Corp. (New Jersey) and three of its wholly owned subsidiaries, Kalman Steel Corp., Bethlehem Mines Corp., and Union Iron Works Co. were consolidated with Bethlehem Steel Corp. (Delaware), pursuant to an agreement dated January 16, 1936. In effecting this consolidation, each holder of the 7-percent cumulative preferred stock of the New Jersey corporation became entitled to receive in exchange for each share thereof one share of the 7-percent cumulative preferred stock ($100 par value) and one share of the 5-percent cumulative preferred stock ($20 par value) of the Delaware corporation, and $1 in cash, and each holder of the common stock of the New Jersey corporation became entitled to receive, for each share thereof, one share of the common stock of the Delaware corporation.

Acquisitions by Bethlehem Steel Corp.—From January 1, 1915, to the end of 1945, the Bethlehem Steel Corp. group acquired more than 40 independent enterprises, information concerning 33 of which was furnished. It acquired, on July 6, 1916, the assets of Pennsylvania Steel Co.; all of the properties and assets of Lehigh Coke Co. were acquired as of February 1, 1917; American Iron & Steel Co.'s properties and assets were acquired on February 27, 1917; also, on February 1, 1917, it acquired possession of a portion of the assets of the Lackawanna Iron & Steel Co.

A Bethlehem Steel Corp. subsidiary acquired, as of December 1, 1918, stock control of Cornwall Iron Co. and Cornwall Railroad Co.

During April 1920, another subsidiary acquired certain assets of Jamison Coal & Coke Co. The shipyards of Baltimore Dry Docks & Shipbuilding Co. were purchased on October 31, 1921. The acquisitions of the properties and assets of Simpson's Patent Dry Dock Co. as of October 26, 1922, and of Lackawanna Steel Co. on October 10, 1922, were important from the standpoint of value.

On March 30, 1923, the most important acquisition was made, namely, most of the properties and assets of Midvale Steel & Ordnance Co. and its subsidiary Cambria Steel Co. These enterprises represented a total capital, inclusive of long-term borrowed capital as well as the book value of the stockholders' equity, of $180,687,003.

After having leased a shipyard property of Southwestern Shipbuilding Co. for 3 years, the corporation's shipbuilding subsidiary purchased it on January 1, 1925. And on July 6, 1928, it acquired the ship repair yard of The Alantic Works at East Boston, Mass.

During January 1930 two of the corporation's subsidiaries acquired all of the properties and assets of the following companies: Pacific Coast Steel Co.; Southern California Iron & Steel Co.; and Danville Structural Steel Co.

Bethlehem Steel Corp. and one of its subsidiaries acquired, during 1931, the properties and assets of five enterprises, namely, McClintic Marshall Corp., Levering & Garrigues Co., Hay Foundry & Iron Works, Hedden Iron Construction Co., and Kalman Steel Co.

As of October 28, 1932, the properties and assets of Seneca Iron & Steel Co. were acquired; and in December 1936 it purchased the entire capital stock of Taubman Supply Corp.

The assets of three more enterprises, namely, United Shipyards, Inc., Shoemaker Bridge Co., and International Supply Co., were acquired during 1938.

After having made no acquisitions for approximately 5 years, Bethlehem Steel Corp., on December 29, 1943, acquired the entire capital stock of Atlas Steel Barrel Corp., which was engaged in the manufacture of steel barrels and pails.

The corporation continued its acquisitions by purchasing as of June 30, 1944, all of American Well & Prospecting Co.'s capital stock; and by November 30, 1944, it had acquired all of the capital stock of Pacific Coast Forge Co.

During the first 2 months of 1945, the corporation acquired the entire capital stock issues of three more enterprises, namely: Buffalo Tank Corp., Petroleum Equipment Co., and Petroleum Equipment International.

Each of these 33 acquisitions is discussed in more detail in the following paragraphs:

Acquisition of the assets of Pennsylvania Steel Co. and its subsidiaries, July 6, 1916.—On July 6, 1916, Bethlehem Steel Co., a subsidiary of Bethlehem Steel Corp., through Penn-Mary Steel Co., a subsidiary organized for the purpose, acquired the assets of Pennsylvania Steel Co., which was engaged in the business of producing iron and steel products and of shipbuilding.

The consolidated balance sheet of Pennsylvania Steel Co. and its subsidiaries as of March 1, 1916, showed net assets (after deducting current liabilities inclusive of the accruals for taxes and interest for the period, January 1 to March 1, 1916) amounting to $55,009,191, represented by a funded debt of $25,791,000, an outstanding minority interest in the capital stock and surplus of a subsidiary company of $13,700, and stockholders' equity of a book value of $29,204,491.

The consideration paid by the Penn-Mary Steel Co., for these assets was $31,941,630 in cash and the assumption of the obligations under mortgage bonds in the principal amount of $17,291,000.

Inasmuch as cash in the amount of $31,941,630 was part of the consideration paid for the net assets carrying a book valuation of $55,009,191, the net equity acquired amounted to only $23,067,561. Related to the $93,450,536 of capital of Bethlehem Steel Corp. at the beginning of the year, this constituted a capital increment of 24.7 percent.

Information as to Pennsylvania Steel Co.'s net sales and net income before providing for income taxes during the year 1915 is not available. However, the acquired company's net income after deduction of income taxes in 1915 amounted to $2,010,957; related to the corresponding figure of $17,762,812, netted by Bethlehem Steel Corp., this indicates that the acquisition added about 11.3 percent to the net earning power of that corporation.

Acquisitions during 1917.—The assets and properties of three enterprises, namely: Lehigh Coke Co., American Iron & Steel Manufacturing Co., and the Lackawanna Iron & Steel Co., were acquired by the Bethlehem Steel Corp. group during the year 1917.

As of February 1, 1917, Eastern Coke Co., a subsidiary of Bethlehem Steel Corp., organized for the purpose, acquired all of the properties and assets of Lehigh Coke Co., which operated a byproduct coke plant at Bethlehem, Pa.

There being no data available as to the acquired company's financial position as of February 1, 1917, or shortly prior thereto, it is assumed that the consideration paid, in the amount of $8,067,250, consisting of $1,067,250, in cash and $7,000,000, principal amount of 5-percent first-mortgage gold bonds of Eastern Coke Co., constituted an approximation of the book value of the net assets acquired.

Penn-Mary Steel Co., a subsidiary of Bethlehem Steel Corp., on February 27, 1917, acquired the properties and assets of American Iron & Steel Co. which was engaged in the manufacturing of bolts, nuts, rivets, and similar products.

American Iron & Steel Manufacturing Co.'s balance sheet as of December 31, 1916, showed net assets (after deducting current liabilities) amounting to $9,920,727. The company's gross sales amounted to $3,721,920 in 1914, to $4,957,312 in 1915, and to $9,033,986 in 1916; and its net income to surplus for year amounted to $71,179, $517,017, and $1,107,013 in the 3 years respectively.

The vending company received only $6,600,000 principal amount, of 20-year 5-percent first-mortgage sinking fund, gold bonds of Penn-Mary Steel Co. for its net assets. In spite of the fact that the vending company's operations had been increasingly profitable, the consideration paid by the acquiring company was only 66.53 percent of the book value of the net assets acquired.

On February 1, 1917, Bethlehem Steel Co., a subsidiary of Bethlehem Steel Corp., acquired possession of those assets that were situated in Lebanon County, Pa., of The Lackawanna Iron & Steel Co. Those assets, including blast furnaces, shares of Cornwall Iron Co. stock, and a leasehold interest in Cornwall Railroad Co., were conveyed to the acquiring company by an indenture dated August 31, 1917.

Their depreciated valuation on the books of the vending company not being available, it is assumed that the assumption of liability under mortgage bonds of The Lackawanna Iron & Steel Co. in the principal amount of $1,770,000 and the payment of $770,347 in cash by Bethlehem Steel Co. indicated a book value of approximately $2,540,347 of the assets acquired.

Through these three acquisitions, the Bethlehem Steel Corp. acquired control of assets aggregating approximately $20,528,324, part of the payment for which was $1,837,597 in cash, resulting in the acquisition of a net equity of approximately $18,690,727. This amount, related to $170,316,788 of capital of the acquiring corporation at the beginning of 1917, constituted a capital increment of 11 percent.

As previously stated, American Iron & Steel Co.'s gross sales during 1916 amounted to $9,033,986, which, related to $216,284,556 of gross sales by the acquiring corporation during the same year, indicates an addition to gross sales volume of about 4.2 percent. The combined net income to surplus for year, of this company, and the Lackawanna Iron & Steel Co., in 1916 amounted to $1,518,466, which, related to the corresponding amount of $43,593,978 netted by Bethlehem Steel Corp., indicates that the acquisitions added about 3.5 percent to the net earning power of that corporation. Sales and profit data for Lehigh Coke Co., and sales information for The Lackawanna Iron & Steel Co. are lacking.

Acquisition of the capital stocks of Cornwall Railroad Co. and Cornwall Iron Co.—Bethlehem Steel Co., having received 667 shares of Cornwall Iron Co.'s capital stock and a leasehold interest in Cornwall Railroad Co. as part of the assets acquired, during 1917, from The Lackawanna Iron & Steel Co., acquired from certain individuals, as of December 1, 1918, the remaining 5,333 shares of Cornwall Iron Co. stock and the entire capital stock of Cornwall Railroad Co. Three blast furnaces owned by Cornwall Iron Co., and the railroad properties of Cornwall Railroad Co. had been operated by Bethlehem Steel Co. as leasee since February 1, 1917.

Balance sheets of the two companies as of December 31, 1918, 30 days after ownership control had been obtained, showed net equity in the aggregate value of $1,494,719. This amount, compared to the $300,517,478 of capital of Bethlehem Steel Corp. at the beginning of that year.

The consideration paid for the stocks acquired, and sales and profit information for the acquired companies were not reported.

Acquisition of certain properties of Jamison Coal & Coke Co.—In April 1920, Finch Run Coal Co., a subsidiary of Bethlehem Steel Corp., acquired from Jamison Coal & Coke Co. two coal mines comprising approximately 6,700 acres of coal, together with tenant houses, mining equipment and facilities, and merchandise stores and inventories.

The depreciated valuation of these properties, on the books of the vending company as of the date of acquisition not being known, it is assumed that the consideration paid therefor in the amount of $7,151,769, consisting of $695,769 in cash, $4,200,000, principal amount, of Finch Run Coal Co.'s bonds and the assumption of the liability under two bond issues of Jamison Coal & Coke Co. aggregating $2,256,000 principal amount, represents a fair approximation of their value. This estimated valuation exclusive of the amount of cash paid constituted an addition to the net assets of the acquiring company in the computed amount of $6,456,000, which is 2.1 percent of the $303,992,212 of net assets of Bethlehem Steel Corp. as of the beginning of the year.

Acquisition of shipyards of Baltimore Dry Docks & Shipbuilding Co.—On October 31, 1921, Bethlehem Shipbuilding Corp., Ltd., a subsidiary of Bethlehem Steel Corp., purchased three shipbuilding and ship repair yards at Baltimore, Md., from Baltimore Dry Docks & Shipbuilding Co. The reported purchase price of $3,030,000 was paid, $280,000 in cash and $2,750,000, principal amount, in purchase money mortgage 5½-percent 15-year sinking fund gold bonds of Bethlehem Shipbuilding Corp., Ltd.

No information is available as to the vending company's financial position at, or shortly prior to, October 31, 1921. Therefore, the valuation of these net assets added by the acquiring company is estimated at $2,750,000, which amount is the purchase price exclusive of the $280,000 paid in cash. This estimated valuation, compared to $337,400,842 of capital of Bethlehem Steel Corp. at the beginning of that year.

Acquisitions during 1922.—The Bethlehem Steel Corp. acquired the properties and assets of Simpson's Patent Dry Dock Co. and Lackawanna Steel Co. during the year 1922.

As of October 26, 1922, Bethlehem Shipbuilding Corp., Ltd., a subsidiary of Bethlehem Steel Corp., acquired the properties and assets, execpt accounts receivable, securities and cash, of Simpson's Patent Dry Dock Co., which operated a ship repair yard at East Boston, Mass.

There being no information available as to the financial position of the vending company at, or shortly prior to, the date of this acquisition, it is assumed that the consideration paid in the amount of $502,022, consisting of $317,509 in cash and $182,000, principal amount, of consolidated mortgage 6-percent gold bonds, series A, of Bethlehem Steel Corp. (on which interest had accrued in the aggregate amount of $2,513), constitutes a fair estimate of the book value of the net assets acquired.

All the properties and assets of Lackawanna Steel Co. were acquired by Bethlehem Steel Co., of New York, Inc., a subsidiary of Bethlehem Steel Corp., on October 10, 1922.

A consolidated balance sheet of Lackawanna Steel Co. and its subsidiaries as of September 30, 1922, showed net assets (after deducting current liabilities inclusive of accruals for taxes and interest for the period, January 1 to September 30, 1922) amounting to $82,102,190.82, represented by funded and secured debt of $21,337,000 and stockholders' equity with a book value of $60,765,190.82.

In consideration for these net assets, the acquiring company assumed the vending company's liability under its funded and secured debt in the principal amount of $21,337,000, paid $473,509.45 in cash and delivered $12,500,000, par value, of 7-percent cumulative preferred stock and $22,608,500, par value, of class B common stock of Bethlehem Steel Corp. The total value of the consideration paid was only $56,919,009.45, or 69.33 percent of the book value of the net assets acquired. This is probably accounted for by the fact that the vending company's gross sales and earnings declined from $70,587,305.92 in 1920 to $18,301,331.84 in 1921, and its net income for the year decreased from a profit of $4,294,375.16 in 1920 to a loss of $3,384,876.79 in 1921.

Control of net assets having an aggregate book value of $82,604,213, was thus acquired by Bethlehem Steel Corp., during the year 1922. However, to effect these acquisitions, it expended cash in the amount of $791,018, which reduced the value of the increment to a net of $81,813,195. This increment related to the $342,774,452 of capital of the acquiring company at the beginning of that year, constituted a 23.9-percent increase in the capital under its control.

Sales and profit data for the year preceding acquisition were available for Lackawanna Steel Co. and its subsidiaries only. Its gross sales and earnings during 1921 amounted to $18,301,331.84, which, related to $147,794,353 of gross sales by Bethlehem Steel Corp. during the same year, indicates an addition of 12.4 percent to the corporation's gross sales volume. The acquired company's operations during 1921 were unprofitable to the extent that it sustained a $3,384,876.79 loss which, related to the amount of $10,332,805 of profit netted by the acquiring corporation for that year, indicates that this acquisition reduced the corporation's net earning power by about 32.8 percent.

Acquisition of assets of Midvale Steel & Ordnance Co. and Cambria Steel Co.—On March 30, 1923, various Bethlehem Steel Corp. subsidiaries acquired all the properties and assets of Midvale Steel & Ordnance Co., except its Nicetown Plant and Ordnance business and the capital stock of Cambria Steel Co. and two other subsidiaries; they also acquired the properties and assets of Cambria Steel Co. Midvale Steel & Ordnance Co. owned approximately 97 percent of Cambria Steel Co.'s capital stock, and was engaged in the manufacture of iron and steel products. Cambria Steel Co. operated (under a 999-year lease dated December 1, 1898) the plant of Cambria Iron Co. at Johnstown, Pa.

The consolidated balance sheet of Midvale Steel & Ordnance Co. and subsidiaries (including Cambria Steel Co.) as of March 31, 1923, shows assets aggregating $191,385,769.27. However, the value of its Nicetown Ordnance Plant, which was not included among the assets sold, is not reported. Therefore, its net assets in the amount of $180,687,003.31, as shown by this consolidated balance sheet, exceeds the book value of the assets acquired by Bethlehem Steel Corp.

The aggregate book value of the consideration paid by the acquiring corporation for these assets was $156,729,900, consisting of $97,681,400, par value, of the common stock of Bethlehem Steel Corp., and the assumption of the funded and secured debt of Midvale Steel & Ordnance Co. and its subsidiaries in the principal amount of $50,580,500, together with $8,468,000 of Cambria Iron Co.'s capital stock on which 4-percent dividends are guaranteed under a 999-year lease.

It appears, therefore, that the value of the net assets acquired by Bethlehem Steel Corp. was an amount between the $156,729,900 of consideration paid and the $180,687,003.31 of net assets of the vending company. These amounts, related to the $409,737,022 of capital of the acquiring corporation as of the beginning of the year indicates a capital increment of between 38 and 44 percent.

Sales and profit data of Midvale Steel & Ordnance Co. and its subsidiaries for the year 1922 are lacking.

Acquisition of shipyard property of Southwestern Shipbuilding Co.—From January 1, 1922, to December 31, 1924, Bethlehem Shipbuilding Corp., Ltd., a subsidiary of Bethlehem Steel Corp., operated under lease a shipyard property at Los Angeles, Calif., owned by Southwestern Shipbuilding Co. The rental under the terms of the lease was the sum of (1) taxes on the property, (2) $30,000 a year and (3) an amount equal to 40 percent of the net profits from the operation of the property.

After having operated this property under lease for 3 years, the lessee corporation, on January 1, 1925, purchased it for $934,072.27, payment for which was $34,072.27 in cash and $900,000, principal amount, of purchase money mortgage 6-percent 15-year sinking fund gold bonds of Bethlehem Shipbuilding Corp., Ltd.

Neither the depreciated valuation of the properties on the books of the vending company, nor its financial position at, or shortly prior to, January 1, 1925, having been reported, it is assumed that the value of the consideration paid, by the acquiring corporation, represented their equitable valuation. However, since a part of the valuation of the properties thus ascertained was paid in cash, only $900,000 of additional equity was acquired by Bethlehem Shipbuilding Corp., Ltd. This additional equity, compared with $587,554,293 of capital of Bethlehem Steel Corp. as of December 31, 1924.

Acquisition of ship repair yard of the Atlantic Works.—On July 6, 1928, Bethlehem Shipbuilding Corp., Ltd., a Bethlehem Steel Corp. subsidiary, acquired the ship repair yard of the Atlantic Works at East Boston, Mass., for $477,572.71 in cash, and the assumption of $422,500, principal amount, of the vending enterprise's 6-percent first-mortgage bonds.

The Atlantic Works had, on December 31, 1927, net assets of $1,960,900 after deduction of current liabilities. Inasmuch as part of the consideration paid was $477,572.71 in cash, the acquisition increased the net assets of the acquiring corporation only approximately $1,483,327. The capital of Bethlehem Steel Corp. at the beginning of that year amounted to $621,231,487.

Gross sales of the Atlantic Works during 1927 amounted to $1,316,004, which compared with $271,502,891 of gross sales by Bethlehem Steel Corp. during the same year. In the same year the vending company's net income for the year amounted to $38,811, which compared to the corresponding amount of $15,826,142 netted by Bethlehem Steel Corp.

Acquisitions during 1930.—During the year 1930, two subsidiaries of Bethlehem Steel Corp. acquired the properties and assets of Pacific Coast Steel Co., Southern California Iron & Steel Co., and Danville Structural Steel Co.

As of January 9, 1930, Pacific Coast Steel Corp., a subsidiary of Bethlehem Steel Corp., acquired all the properties and assets of Pacific Coast Steel Co., and Southern California Iron & Steel Co. Both of these companies had been engaged in the manufacture of iron and steel products on the Pacific coast.

Pacific Coast Steel Co.'s net assets, valued at $9,419,048 on its books as of December 31, 1929, were purchased by Pacific Coast Steel Corp. for $14,793,500, principal amount, of its 5-percent serial gold bonds. The corporation also purchased the net assets of Southern California Iron & Steel Co., valued on their books at $3,372,842, for $7,228,500, principal amount, of its 5-percent serial gold bonds and its assumption of liability under $746,750, principal amount, of the first mortgage 6½-percent gold bonds of the vending company.

Among the assets acquired from Pacific Coast Steel Co. were 6,516 shares of Southern California Iron & Steel Co. capital stock, in exchange for which Pacific Coast Steel Corp. received $2,022,000, principal amount, of its own 5-percent serial gold bonds previously given as part payment for the net assets of the latter company.

Thus Pacific Coast Steel Corp. acquired net assets valued at $12,153,316, on the books of the vending companies, for $20,746,750 of its own and assumed securities, on which the annual interest expense exceeded $1,000,000. However, the acquired companies' combined net income after providing for Federal income taxes amounted to $999,542 in 1927, to $1,430,287 in 1928, and to $463,707 in 1929, indicating that the excessive value of the consideration received was not justified by their earning power.

As of January 27, 1930, Bethlehem Steel Co., a subsidiary of Bethlehem Steel Corp., purchased the properties and assets of Danville Structural Steel Co. The consideration paid in the amount of $546,996 consisted of the assumption of $276,605.97 of the acquired company's bonded obligation and the assumption of its current liabilities, which exceeded its current assets by $270,390.03.

Lacking financial data for the acquired company it is assumed that the value of the consideration paid represents a fair valuation of the net assets acquired.

During 1930, Bethlehem Steel Corp. acquired, from these three enterprises, net assets aggregating approximately $12,429,922, which, related to its $752,705,243 of capital at the beginning of that year, constituted an increment of 1.7 percent.

Sales and profit information for the year 1929 was available only for Pacific Coast Steel Co. and Southern California Iron & Steel Co. Their gross sales and earnings for that year aggregated $12,871,097, which, related to $342,516,207 of gross sales by Bethlehem Steel Corp. for the same year, indicates an addition of 3.8 percent to the corporation's gross sales volume. During 1929, the acquired companies' net income before providing for Federal income taxes amounted to $907,798, and their net income after deducting Federal income taxes was $463,707; and these, related to the corresponding amounts of $47,780,129 and of $42,242,980 respectively netted by Bethlehem Steel Corp., indicates that these acquisitions added 1.9 percent and 1.1 percent respectively to the corporation's net earning power before and after income taxes.

Acquisitions during 1931.—During 1931, the properties and assets of McClintic-Marshall Corp., Levering & Garrigues Co., Hay Foundry & Iron Works, Hedden Iron Construction Co., and Kalman Steel Co., were acquired by Bethlehem Steel Corp.

On February 10, 1931, Bethlehem Steel Corp. acquired all the properties and assets of McClintic-Marshall Corp. These properties, fully equipped for the fabrication and construction of steel buildings, bridges, tanks, river barges, pipe lines, etc., located in Pennsylvania, New York, Illinois, and California, represented an important extension of the acquiring corporation's activities.

Neither the book value of the assets acquired nor the vending company's balance sheet having been reported, it is assumed that the valuation of the consideration paid was an equitable estimate of the capital represented by the acquired assets. The consideration paid was (*a*) the assumption of liability under $12,000,000, principal amount, of collateral trust 5½-percent serial gold bonds of McClintic-Marshall Construction Co., (*b*) $8,200,000, principal amount, of Bethlehem Steel Corp.'s 4½-percent serial gold bonds, and (*c*) 240,000 shares of the no par value common stock of Bethlehem Steel Corp. The valuation placed on this common stock was not reported. However, the corporation's balance sheet as of December 31, 1930, indicated a book value of approximately $141.82 per share, or $34,036,800 for the 240,000 shares. Thus the computed valuation of the consideration paid amounted to $54,236,800.

Bethlehem Steel Corp., on April 21, 1931, purchased all the properties and assets of Levering & Garrigues Co., a New Jersey corporation engaged in the fabrication of structural steel and the erection of buildings, for $2,250,000, principal amount, of its 4½-percent serial gold bonds.

The net assets acquired were valued at $1,392,972 in the April 30, 1931, balance sheet of Levering & Garrigues Co. During the year 1930, the acquired company's gross sales and earnings amounted to $8,107,107, and its profit amounted to $176,429 after providing for Federal income taxes.

On April 22, 1931, Bethlehem Steel Corp. acquired all the properties and assets of Hay Foundry & Iron Works, a New Jersey corporation engaged in the fabrication and erection of iron and steel, for $2,000,000, principal amount, of its 4½-percent serial gold bonds.

The vending company had, on April 30, 1931, net assets of $1,279,658. During the year 1930 its gross sales amounted to $3,221,439; and it sustained a net loss of $68,525.

Again on April 23, 1931, Bethlehem Steel Corp. purchased all the properties and assets of Hedden Iron Construction Co., another New Jersey corporation engaged in the fabrication and erection of iron and steel, for $1,250,000, principal amount, of its 4½-percent serial gold bonds.

In this case the net assets, of the acquired company, as shown by its balance sheet of April 30, 1931, were only $370,072, and its gross sales and earnings, during 1930 were $2,779,543 while for the same year its profit after deducting Federal income taxes was $37,811.

On August 4, 1931, Kalman Steel Corp., a subsidiary of Bethlehem Steel Corp. organized for the purpose, acquired all the properties and assets of Kalman Steel Co., a Delaware corporation, engaged in the warehousing and selling of steel products, for $493,398 in cash and the assumption of its mortgage obligations in the principal amount of $336,667.

A balance sheet of Kalman Steel Co. as of July 31, 1931, showed net assets amounting to $1,493,663, a funded debt of $336,667, and a stockholders' equity with a book valuation of $1,156,996 after deduction of an accumulated deficit of $477,004.

In spite of gross sales and earnings amounting to $7,424,682 in 1928, to $7,732,887 in 1929, and to $7,105,073 in 1930, the acquired enterprise had not shown a profit since 1928 and then only $16,049, but had sustained losses of $263,560 and $288,767 respectively during 1929 and 1930.

Through these five acquisitions, Bethlehem Steel Corp. gained control of additional net assets of an aggregate book value of approximately $58,279,767, which related to its $679,812,050 of capital at the beginning of the year 1931, constituted a capital increment of 8.6 percent.

Sales and profit information for the year preceding acquisition was available for all of the acquired enterprises except McClintic-Marshall Corp. During 1930, the gross sales and earnings of the other four enterprises aggregated $21,213,162, which, related to $258,979,253 of gross sales by Bethlehem Steel Corp. during the same year, indicates an addition of 8.2 percent to the gross sales volume of the corporation.

Acquisition of assets of Seneca Iron & Steel Co.—As of October 28, 1932, Bethlehem Iron Mines Co., a subsidiary of Bethlehem Steel Corp., acquired the properties and assets of Seneca Iron & Steel Co., a New York corporation engaged in the manufacture and sale of iron and steel products.

Inclusive of $595,095 of "appreciation," the Seneca Iron & Steel Co. had, on July 31, 1932, net assets of $2,959,157 after deducting current liabilities.

The valuation of the consideration paid by Bethlehem Iron Mines Co. for these net assets was not reported. However, the composition of the consideration and its valuation at the book valuations of its components as of December 31, 1931, were as follows:

Bethlehem Steel Corp., 7-percent cumulative preferred stock, 5,000 shares, at $100	$500,000
Bethlehem Steel Corp., no par value common stock, 10,000 shares at $137.50	1,375,000
Total	1,875,000

The vending company's operations had been decreasingly profitable, as the net sales decreased from $7,265,043 in 1929, to $5,878,780 in 1930, and to $3,554,314 in 1931; and its net income for the year declined from a profit of $290,230 in 1929, to losses of $144,299 and $190,528 respectively in 1930 and 1931.

In comparison with the above-stated valuations and amounts, the net assets of Bethlehem Steel Corp. as of December 31, 1931, amounted to $681,257,273; its gross sales amounted to $186,541,195, and its net income after providing for Federal income taxes amounted to $115,745.

Acquisition of the capital stock of Taubman Supply Corp.—In December 1936, Bethlehem Steel Co., a Bethlehem Steep Corp. subsidiary, purchased all of the outstanding capital stock of Taubman Supply

Corp., for an undisclosed consideration. At that date, the acquired corporation was engaged in selling oil country supplies, some of which it manufactured itself.

Taubman Supply Corp. had, on June 30, 1936, net assets of $605,506 after deduction of current liabilities, all of which constituted the stockholders' equity. During the year ended on that date, the acquired corporation's net sales amounted to $4,121,488 and its profit amounted to $258,039 before providing for Federal income taxes or to $212,184 after deduction of that provision.

Acquisitions during 1938.—Bethlehem Steel Corp., through three of its subsidiaries, acquired, during 1938, the assets of United Shipyards, Inc., Shoemaker Bridge Co., and International Supply Co.

On June 2, 1938, Bethlehem Shipbuilding Corp., Ltd., a subsidiary of Bethlehem Steel Corp., acquired substantially all of the fixed assets, the inventories of materials and supplies, and certain other assets of United Shipyards, Inc., for $9,469,372 in cash. This company had been engaged in the business of building, repairing, and drydocking vessels in New York Harbor.

United Shipyards, Inc., in a letter dated May 2, 1938, to its stockholders, gave the following reasons for selling out to Bethlehem Shipbuilding Corp., Ltd., (1) it has been handicapped by a lack of working capital and had found it necessary, for several years, to rely on bank borrowings; (2) a substantial part of the loss in working capital incurred during the year 1937 was directly attributed to labor trouble, it having been obliged on April 7, 1937, to grant an 11-percent increase in its wage scale; (3) labor cost in the port of New York, which had the highest wage scale on the Eastern Seaboard of the United States for shipbuilding labor, handicapped the company in competing with shipbuilding concerns in other parts of the country where the wage scales were materially lower; and (4) in the 9 years that it had been in business it had not shown a net profit in any year.

The consolidated balance sheet of United Shipyards, Inc., and its wholly owned subsidiary as of December 31, 1937, showed net assets (after deducting current liabilities) amounting to $12,895,936.53, some of which, however, were not included in the sale. The excluded assets, as stated in its letter of May 2, 1938, to its stockholders, were cash, notes, and accounts receivable, work in progress, nine parcels of unimproved land on Staten Island, N. Y., the leasehold interest in its office, two small motor vessels, contracts, and certain office records, furniture and fixtures, which, on December 31, 1937, had a book valuation in excess of $3,292,542.45. Therefore, on that date, the value of its net assets sold to the acquiring corporation could not have been in excess of $9,602,394.08.

United Shipyards, Inc., sustained a net loss during 1937 of $665,441.37. Information as to its net sales for that year is lacking.

On August 17, 1938, Bethlehem Steel Co., a subsidiary of Bethlehem Steel Corp., purchased all the properties and assets of Shoemaker Bridge Co. for a consideration valued at $168,024.53. This consideration consisted of, (*a*) assumption of approximately $7,000, of unpaid real estate taxes, (*b*) assumption of the expenses, up to but not exceeding $500, of dissolution of the vending company, (*c*) surrending to Shoemaker Bridge Co., and discharging it from liability under $220,000 principal amount of its 6-percent first mortgage bonds, purchased in June 1938, by the acquiring company at a cost of $99,000, (*d*) surrendering to the vending company, and discharging it from, a judgment in favor of the acquiring company in the principal amount of $54,337.47, and (*e*) surrendering to and discharging it from certain other debts aggregating $159,410.38 which the acquiring company had purchased at a total cost of $7,187.06.

There being no financial data available for Shoemaker Bridge Co., it is assumed that the valuation of the consideration paid by the acquiring company approximates the value of the properties and assets acquired.

In December 1938, Bethlehem International Supply Co., a subsidiary of Bethlehem Steel Corp. organized for the purpose, acquired the business and assets of International Supply Co., except the stock owned by it in Illinois Water Development Co. and in Bradshaw Oil & Gas Co. and certain claims and accounts and notes receivable. The business of the vending company had been that of operating a plant for the manufacture of certain types of oil-well equipment and selling oil-well supplies through supply stores and sales offices in Kansas, New Mexico, Oklahoma, and Texas.

In consideration for the assets acquired, Bethlehem-International Supply Co. gave the vending company 1,999 shares of the former's capital stock (which was purchased for $877,459 in cash by Bethlehem Steel Corp. within the month) and assumed its liabilities, which, as of July 31, 1938, aggregated $785,960.94.

Inasmuch as the book valuation of International Supply Co.'s assets thus acquired is not reported, their value is estimated at $1,663,419.94.

The acquired company's net sales and profit data for the year preceding the date of acquisition were not reported.

Control of an estimated $11,433,839 of net assets was thus acquired, from these three enterprises, by Bethlehem Steel Corp.; but in so doing it expended cash in the amount of $10,453,018, with the net result that the actual capital added through acquisition amounted to only $980,821.

Acquisition of the capital stock of Atlas Steel Barrel Corp.—Bethlehem Steel Corp., on December 29, 1943, acquired all of the issued and outstanding shares (1,195) of the capital stock of Atlas Steel Barrel Corp., which was engaged in manufacturing steel barrels and pails, for an undisclosed consideration.

Atlas Steel Barrel Corp. had, on December 31, 1943, net assets of $575,850.18 after deduction of current liabilities, all of which constituted the stockholders' equity. During the 3 years preceding acquisition, the acquired company's net sales amounted to $4,102,953 in 1941, to $3,460,784 in 1942, and to $3,278,074 in 1943. Its net profit before providing for Federal income and excess profits taxes declined from $337,497 in 1941, to $304,014 in 1942, and to $127,373 in 1943, and after deduction of the tax provision amounted to $136,857, $80,477, and $42,373 respectively for the same years.

In comparison with the above stated valuations and amounts, the net assets of Bethlehem Steel Corp. as of December 31, 1942, amounted to $692,853,276, its net sales for the year 1942 amounted to $1,495,547,299, and its profit amounted to $165,452,438 before provision for Federal income and excess profits taxes or to $25,472,438 after deduction of that provision.

Acquisition of the capital stocks of American Well & Prospecting Co. and Pacific Coast Forge Co. during 1944.—During 1944, Bethlehem Steel Co. acquired stock control of American Well & Prospecting Co. and Pacific Coast Forge Co.

As of June 30, 1944, Bethlehem Steel Co., a subsidiary of Bethlehem Steel Corp., purchased all of the issued and outstanding shares of the capital stock of American Well & Prospecting Co., which owned and operated a plant at Corsicana, Tex., for the manufacture of oil well rotary drilling equipment, for an undisclosed consideration.

The net assets of the acquired company as of December 31, 1943, amounted to $860,201 after deduction of current liabilities, all of which constituted the stockholders' equity.

Information as to American Well & Prospecting Co.'s net sales and net income before provision for Federal income and excess profits taxes is lacking. However, its operations had been increasingly profitable as its net income after deduction of Federal income and excess profits tax provision increased from $127,468 in 1941 and $144,286 in 1942 and to $206,155 in 1943.

Also, Bethlehem Steel Co., as of November 30, 1944, acquired all of the outstanding capital stock of Pacific Coast Forge Co., which owned and operated a plant at Seattle, Wash., for the manufacture of bolts, nuts, spikes, rivets, and similar products.

The balance sheet of the acquired company, as of November 30, 1944, showed net assets after deduction of current liabilities, amounting to $430,402, all of which constituted the stockholders' equity.

The consideration paid for this equity, by the acquiring company, however, was not disclosed.

Pacific Coast Forge Co.'s net sales, and net income before providing for Federal income and excess profits taxes were not available, but the declining profitability of the company was revealed by the fact that its net income after deduction of Federal income and excess profits taxes decreased from $92,425 in 1942 to $36,098 in 1943 and to $26,227 in 1944.

The result of these two acquisitions was that Bethlehem Steel Corp. increased the net assets under its control about $1,290,603, which compared with the $711,630,375 of its capital at the beginning of that year. The acquired companies' combined net income after deduction of Federal income and excess profits taxes in the year preceding the date of acquisition amounted to $232,382; and this compared with $32,124,592 netted by Bethlehem Steel Corp.

Acquisition of the capital stocks of Buffalo Tank Corp., Petroleum Equipment Co., and Petroleum Equipment International, during 1945.—Stock control of Buffalo Tank Corp., Petroleum Equipment Co., and Petroleum Equipment International was acquired by Bethlehem Steel Co. during 1945.

Bethlehem Steel Co., a subsidiary of Bethlehem Steel Corp., having previously acquired 45.5 percent of the outstanding shares of the capital stock of Buffalo Tank Corp., purchased, as of January 2, 1945, the remaining 54.5 percent of such shares, for an undisclosed consideration. The acquired company was engaged in the business of manufacturing small steel storage tanks and other welded plate products.

Buffalo Tank Corp.'s balance sheet as of December 31, 1944, showed a stockholders' equity amounting to $401,556. The company's net profit for the year amounted to $63,902 in 1942, to $51,654 in 1943 and to $35,003 in 1944. Its net sales for those years were not reported.

As of February 14, 1945, Bethlehem Steel Co. acquired, for an undisclosed consideration, the capital stock of Petroleum Equipment Co., which was engaged in the business of selling oil-well supplies on the Pacific coast.

The net assets of the acquired company as of December 31, 1944, amounted to $729,687.54, which constituted the stockholders' equity.

Petroleum Equipment Co.'s net sales amounted to $6,843,250.51 in 1942, to $10,112,289.71 in 1943, and to $9,662,830 in 1944; and its net income after providing for Federal income and excess profits taxes amounted to $39,042.04, $140,899.35, and $128,503.31 in the 3 years, respectively.

Bethlehem Steel Co. also, on February 14, 1945, acquired the outstanding capital stock of Petroleum Equipment International, which sold oil-well supplies for export. Again, the valuation of the consideration was not disclosed.

A balance sheet, of the acquired company, as of December 31, 1944, showed a stockholders' equity amounting to $33,957.83. Sales and profit information for the company is lacking.

By these three acquisitions, Bethlehem Steel Corp. increased the net assets under its control about $1,165,201, which related to the $757,459,667 of its capital at the beginning of 1945.

Net sales reported for only one of the three companies amounted to $9,662,830.26 in 1944, and net income after deducting provision for Federal income and excess profits taxes aggregated $163,506.31 for two of them.

Bethlehem Steel Corp.'s net assets were increased by $395,629,359 as a result of the acquisition of the 33 enterprises enumerated above, and listed chronologically below.

Bethlehem Steel Corp.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1916	Pennsylvania Steel Co	$23,067,561
1917	Lehigh Coke Co	7,000,000
1917	American Iron & Steel Manufacturing Co	9,920,727
1917	Lackawanna Iron & Steel Co.[1]	1,770,000
1918	Cornwall R. R. Co[2]	889,493
1918	Cornwall Iron Co.[2]	605,226
1920	Jamison Coal & Coke Co.[1]	6,456,000
1921	Baltimore Dry Docks & Shipbuilding Co	2,750,000
1922	Simpson's Patent Dry Dock Co	184,513
1922	Lackawanna Steel Co	81,628,682
1923	Midvale Steel & Ordnance Co.[1]	180,687,003
1923	Cambria Steel Company	
1925	Southwestern Shipbuilding Co.[1]	900,000
1928	The Atlantic Works	1,483,327
1930	Pacific Coast Steel Co	8,780,474
1930	Southern California Iron & Steel Corp	3,372,842
1930	Danville Structural Steel Co	276,606
1931	McClintic-Marshall Corp	54,236,800
	Subtotal	384,009,254
1931	Levering & Garrigues Co	1,392,972
1931	Hay Foundry & Iron Works	1,279,658
1931	Hedden Iron Construction Co	370,072
1931	Kalman Steel Co	1,000,265
1932	Seneca Iron & Steel Co	2,959,157
1936	Taubman Supply Corp.[2]	605,506
1938	United Shipyards, Inc.[1]	133,022
1938	Shoemaker Bridge Co	61,838
1938	International Supply Co.[1]	785,961
1943	Atlas Steel Barrel Corp.[2]	575,850
1944	American Well & Prospecting Co.[2]	860,201
1944	Pacific Coast Forge Co.[2]	430,402
1945	Buffalo Tank Corp.[2]	401,556
1945	Petroleum Equipment Co.[2]	729,687
1945	Petroleum Equipment International[2]	33,958
	Total	395,629,359

[1] Portion of assets acquired.
[2] Acquisition of capital stock.

REPUBLIC STEEL CORP.

Position in the industry.—Republic Steel Corp. was rated, on January 1, 1945, as the third steel producer in order of magnitude in the United States. It is primarily an operating company engaged in the manufacture and sale of a diversified line of iron and steel products, including pig iron, semifinished steel, alloy steels, special steels, billets, bars, pipe, hot- and cold-rolled sheets and strip, tin and terneplate, bolts and nuts, fabricated material and other items. Also, the corporation is a leading manufacturer of alloy steels, including stainless steel and high-tensile steels, and it is an important producer of steel for the automobile industry and of electrically welded pipe. It obtains a large part of its iron ore and coal requirements from its own mines, and the balance from mines of companies in which it has an interest and by purchase from others.

On January 1, 1945, the rated capacities of the company's facilities were estimated at 9,791,000 net tons of steel ingots and castings, 5,078,000 net tons of coke, and 6,324,000 net tons of pig iron per annum.

Organization of Republic Steel Corp.—Republic Iron & Steel Co. was incorporated in New Jersey on May 3, 1899, as a consolidation of 24 bar and forge iron manufacturing companies.

On April 7, 1930, Republic Steel Corp. was incorporated in New Jersey, and, pursuant to a plan dated January 15, 1930, it acquired the assets and assumed the liabilities of Republic Iron & Steel Co., Central Alloy Steel Corp., Donner Steel Co., and the Bourne-Fuller Co.

Acquisitions by Republic Iron & Steel Co. and Republic Steel Corp.—From January 1, 1915, to the end of 1945, Republic Steel Corp. and Republic Iron & Steel Co. (one of its predecessor companies) acquired, either wholly or in part, 21 independent enterprises, information concerning 13 of which was furnished. During 1928, Republic Iron & Steel Co. acquired the properties and assets of the Trumbull Steel Co., and Steel & Tubes, Inc. All of the common stock of the Trumbull-Cliffs Furnace Co. was acquired on December 31, 1929, and during January of 1930 all of Union Drawn Steel Co.'s capital stock was purchased.

On April 8, 1930, the day after Republic Steel Corp. was organized, it acquired the properties and assets of Central Alloy Steel Corp., Donner Steel Co., and the Bourne-Fuller Co. The Corrigan-McKinney Steel Co.'s properties and assets were acquired on September 24, 1935; and later in that year a controlling interest in the capital stock of Truscon Steel Co. was acquired. Certain assets of Canton Tin Plate Corp. were acquired on June 30, 1936.

During February of 1937, Republic Steel Corp. acquired all of the capital stock of Niles Steel Products Co.; and the properties and assets of Gulf States Steel Co. were acquired on April 8, 1937. On September 21, 1945, it purchased all of the capital stock of the Stevens Metal Products Co.

Each of these 13 acquisitions is discussed in more detail in the following paragraphs.

Acquisitions during 1928.—During 1928 Republic Iron & Steel Co. acquired the properties and assets of the Trumbull Steel Co., and Steel & Tubes, Inc.

As of April 26, 1928, Republic Iron & Steel acquired all of the properties and assets, and assumed all of the liabilities, of the Trumbull Steel Co., which was engaged in the manufacture of pig iron, coke, sheet bars, sheets, hot- and cold-rolled strip, and tin plate.

In consideration for these properties, the acquiring company issued a total of 296,030 shares of its common stock, on the basis of one share of Republic Iron & Steel Co. common stock for five shares of the Trumbull Steel Co. common stock, and 1⅔ shares of Republic Iron & Steel Co. common stock for one share of the Trumbull Steel Co. preferred stock.

The Trumbull Steel Co.'s balance sheet as of December 31, 1927, showed net assets in the amount of $48,048,866.52. Of this $16,889,000 was offset by funded debt; and the remaining $31,159,866.52 constituted the stockholders' equity.

The valuation of the 296,030 shares of Republic Iron & Steel Co.'s common stock that were issued in exchange for this equity was not reported. However, based upon Republic Iron & Steel Co.'s book valuation of its common stock of about $161.17 per share, after giving effect to the acquisition, the book value of these shares was approximately $47,712,225.

Information as to the acquired company's sales and profits for the year preceding its acquisition is lacking.

On October 1, 1928, Steel & Tubes, Inc., a subsidiary of Republic Iron & Steel Co. organized for the purpose, acquired all of the properties and assets, and assumed all of the liabilities of Steel and Tubes, Inc., which was engaged in the manufacture of structural tubing, railroad tie plates, strip steel, agricultural shapes, light angles, and steel pipe and conduit by the electric welding process.

Steel & Tubes, Inc., had, on June 30, 1928, net assets of $6,809,636. Of this, $707,574 was offset by long-term indebtedness; and the remaining $6,102,062 constituted the stockholders' equity, of which $2,237,342 was accumulated profit or surplus.

The consideration paid by Steel & Tubes, Inc., for these assets consisted of the execution and delivery of the entire issue of $4,500,000 principal amount of its 15 year, 6 percent sinking fund debentures, all of its authorized class A and class B shares of capital stock (valued at $117,000), and the delivery of 31,500 shares of Republic Iron & Steel Co. common stock, the value of which was not reported. However, based upon Republic Iron & Steel Co.'s book valuation of its common stock of about $155.45 per share, after giving effect to the acquisition, the book value of these 31,500 shares was approximately $4,896,667. Thus the total value of the consideration paid, to the stockholders of Steel & Tubes, Inc., is estimated at $9,513,667.

Sales and profit data of the acquired company are not available.

Through these two acquisitions, Republic Iron & Steel Co. acquired control of assets aggregating $54,858,502.52, which, related to its $111,365,950 of capital at the beginning of the year, constituted a capital increment of 49.3 percent.

Acquisitions during 1930.—On December 31, 1929, and during the year 1930, Republic Iron & Steel Co. acquired the common stocks of Trumbull-Cliffs Furnace Co. and Union Drawn Steel Co.; and the properties and assets of Central Alloy Steel Corp., Donner Steel Co., and the Bourne-Fuller Co.

Republic Iron & Steel Co., having previously acquired 50 percent of the common stock of the Trumbull-Cliffs Furnace Co., purchased, on December 31, 1929, all of the remaining shares of common stock from the Cleveland-Cliffs Iron Co. for an undisclosed consideration.

The Trumbull-Cliffs Furnace Co.'s balance sheet as of December 31, 1929, showed net assets in the amount of $8,113,908.23, and common stock valued at $500,000. Since the acquiring company owned 50 percent of the common stock, it is assumed that one-half of the value of the common stock, or $250,000, constituted the amount of its investment. Thus net assets with a book valuation of $7,863,908.23 were acquired.

During the year 1929, the acquired company's net sales amounted to $5,587,654.15; and its profit amounted to $538,469.34 before provision for income tax or to $478,769.34 after deduction of that provision.

As of January 1, 1930, Republic Iron & Steel Co. purchased all of the outstanding common stock of Union Drawn Steel Co. for an undisclosed consideration. At the time of its acquisition Union Drawn Steel Co. was reported as being the largest producer of cold drawn steel products in the world, with plants located in Pennsylvania, Ohio, Indiana, Connecticut, and Canada.

The consolidated balance sheet of Union Drawn Steel Co. and its Canadian subsidiary as of December 31, 1929, showed net assets amounting to $11,959,148.41, all of which constituted the stockholders' equity. During the year ended on that date, the acquired company's net sales amounted to $16,266,450.36; and its profit amounted to

$1,016,665.45 before providing for income taxes, or to $902,685.45 after deducting that provision.

On April 8, 1930, Republic Steel Corp. acquired all of the properties and assets, and assumed the liabilities of Central Alloy Steel Corp., Donner Steel Co., and the Bourne-Fuller Co. The consideration paid by the acquiring corporation for these assets was 325,000 shares of its $100 par value, 6-percent cumulative preferred stock, 1,064,028 shares of its no par value common stock, and $181,730 in cash.

Central Alloy Steel Corp., which was engaged in the business of manufacturing carbon, alloy, and stainless steel and steel products, had, on December 31, 1929, net assets of $87,802,918.99. Of this, $8,694,200 was offset by a funded debt; and the remaining $79,108,718.99 constituted the stockholders' equity. During the year ended on that date, the acquired company's profit amounted to $6,814,594.14 before provision for income taxes, or to $6,046,594.14 after deduction of that provision. Information as to its net sales is lacking.

Donner Steel Co. was engaged in the manufacture of pig iron, carbon and alloy sheet bars and die-rolled steel products.

The consolidated balance sheet of Donner Steel Co. and its subsidiaries as of December 31, 1929, showed net assets amounting to $30,844,594.44, represented by a funded debt of $7,269,400, and stockholders' equity of $23,575,194.44. During the year ended on that date, the acquired company's profit amounted to $2,112,993.11 before providing for income taxes or to $1,882,993.11 after deducting that provision. Net sales data for the year are not available.

The Bourne-Fuller Co., which was engaged in the production of pig iron, steel bars, bolts, and nuts, had, on March 31, 1930, net assets of $19,877,759.10, all of which constituted the stockholders' equity. Sales and profit data for this company are not available.

Through these five acquisitions the Republic Steel Corp. acquired control of assets aggregating $158,348,329.17, part of the payment for which was $181,730 in cash, resulting in the acquisition of a net equity of $158,166,599.17. This amount, related to the $154,981,378 of capital of Republic Iron & Steel Co. at the beginning of the year, constituted a capital increment of 102.1 percent.

The combined profit, in 1929, of four of the acquired companies amounted to $10,482,722 before provision for income taxes, and to $9,311,042 after deduction of that provision. These amounts, related to the corresponding amounts of $11,040,900 and $9,882,900 netted by Republic Iron & Steel Co. in 1929, indicates that these acquisitions augmented the net earning power of Republic Steel Corp. about 94.9 percent before providing for income taxes and about 94.2 percent after deducting that provision. Profit data for the Bourne-Fuller Co. and sales information for Republic Iron & Steel Co. are lacking.

Acquisitions during 1935.—The properties and assets of the Corrigan-McKinney Steel Co., and control of the capital stock of Truscon Steel Co. were acquired by Republic Steel Corp. during the year 1935.

As of September 24, 1935, Republic Steel Corp. acquired all of the properties and assets and assumed all of the liabilities of the Corrigan-McKinney Steel Co., which, in addition to its steel, pig iron and coke-producing facilities, owned and operated iron ore mines and had extensive ore reserves and timber holdings in the Lake Superior District. At the time of its acquisition it was estimated that its iron ore reserves were in excess of 50,000,000 gross tons, and its reserves of coking coal were approximately 44,600,000 tons.

The consolidated balance sheet of the Corrigan-McKinney Steel Co. and its subsidiaries as of September 30, 1935, showed net assets amounting to $61,683,690.99, represented by mortgages and loans of $6,075,248.43, outstanding minority interests in the capital stock and surplus of two subsidiary companies of $1,457,952.43, and stockholder's equity with a book value of $54,150,490.13.

The consideration paid by the acquiring corporation for this equity was $15,361,000, principal amount of its 5½ percent purchase money first mortgage and collateral trust bonds, $2,792,900 of its $100 par value, 6 percent cumulative convertible prior-preference preferred stock series A, and 698,223 shares of its no par value common stock. The valuation of the 698,223 shares of common stock was not reported. However, based upon Republic Steel Corp.'s book valuation of about $59.73 per share, after giving effect to the acquisition, the book value of these shares was approximately $41,701,540.82. Thus the total value of the consideration paid by Republic Steel Corp. for an equity of $54,150,490.13 was approximately $59,855,440.82, even though the acquired company had suffered net losses of $1,403,817 and $1,216,277.74, respectively, during the years ended April 30, 1934 and 1935.

On September 11, 1935, Republic Steel Corp. offered to acquire from the holders of the preferred and common stock of Truscon Steel Co. their stock in exchange for preferred and common stocks of Republic Steel Corp. on the basis of one-half share of its $100 par value, 6 percent, cumulative convertible, prior-preference, series A, preferred stock and 2 shares of no par value common stock for each share of Truscon Steel Co. preferred stock, and four-tenths of a share of Republic Steel Corp. no par value common stock for each share of Truscon Steel Co. common stock.

In October 1935, as a result of this offer, Republic Steel Corp. acquired control of both the preferred and common stock issues of Truscon Steel Co., which was a large manufacturer of a varied line of products, particularly in the building field, consisting of steel-window products and steel doors, steel-flooring systems, bridge flooring, steel joists, structural and reinforcing steel, a complete line of metal laths and accessories, highway reinforcing steel products, steel-faced insulation products, steel poles for all purposes, pressed and drawn steel products, complete steel buildings, a complete line of steeldeck roofs, and radio towers.

Truscon Steel Co.'s balance sheet as of December 31, 1935, several months after its acquisition, showed net assets in the amount of $11,023,379.02. During the year ended on December 31, 1934, its net sales amounted to $11,099,577.83, but its operations resulted in a net loss of $358,235.05.

Control of net assets having an aggregate book value of $72,707,070 was thus acquired by Republic Steel Corp. during the year 1935. This amount, related to the $248,736,619 of capital of the acquiring corporation at the beginning of that year, constituted a 29.2 percent increase in the capital under its control.

Sales information for the year preceding acquisition was available for Truscon Steel Co. only. Its net sales during 1934 amounted to $11,099,577.83, which, related to $96,824,857 of net sales by Republic Steel Corp. during the same year, indicates an addition of 11.5 percent to the corporation's net sales volume. Both of the acquired companies' operations during 1934 were unprofitable, having sustained losses aggregating $1,574,512.79.

Acquisition of the assets of Canton Tin Plate Corp.—As of June 30, 1936, Republic Steel Corp. acquired the manufacturing plant, inventory, and certain purchase and sales contracts of Canton Tin Plate Corp. for a consideration valued at approximately $643,876, the character of which was not disclosed.

The acquired company was engaged in the manufacture of tin plate in its plant that adjoined the Canton, Ohio, plant of Republic Steel Corp.

The Canton Tin Plate Corp.'s balance sheet as of April 30, 1936, showed net assets amounting to $514,984.88, which compared to $286,513,169 of capital of Republic Steel Corp. as of December 31, 1935. Sales and profit data of the acquired company are not available.

Acquisitions during 1937.—During 1937, Republic Steel Corp. acquired all of the capital stock of Niles Steel Products Co. and the properties and assets of Gulf States Steel Co.

As of February 1937, Republic Steel Corp. had acquired all of the outstanding capital stock of Niles Steel Products Co. for an undisclosed consideration.

The acquired company, which was engaged in the business of manufacturing sheet steel containers and stampings, had, on December 31, 1936, net assets of $924,043.29, represented by an indebtedness of $650,446.34 to the Republic Steel Corp. group, a first mortgage of $259,000, and a stockholder's equity of $14,596.95 after the deduction of an accumulated deficit of $274,188.05. During the year ended on that date, its net sales amounted to $1,661,817.01, and it sustained a net loss of $54,741.98.

On April 6, 1937, Republic Steel Corp. acquired all of the properties and assets of Gulf States Steel Co. The vending company's properties included an integrated steel plant at Gadsden, Ala., consisting of by-product coke ovens, blast furnaces, open-hearth furnaces, blooming mill, plate mill, bar mills, rod and wire mills, sheet mills and nail and fence machines, as well as extensive iron ore and coal properties.

The balance sheet of Gulf States Steel Co. as of December 31, 1936, showed net assets amounting to $32,316,735.22, a funded debt of $7,000,000, first preferred stock, together with premium payable and accrued dividends in the amount of $2,585,380.73 (cash in a like amount deposited with a trustee for its redemption on January 2, 1937), and a common stockholders' equity with a book valuation of $22,731,354.49.

In consideration for the assets acquired Republic Steel Corp. issued, to the holders of Gulf States Steel Co. common stock, 689,981 shares of its no par value common stock, the value of which was approximately $25,928,694 (based upon Republic Steel Corp.'s book valuation of its common stock of about $37.58 per share, after giving effect to the acquisition), and assumed the vending company's liabilities.

The vending company's net sales amounted to $8,801,795.31 in 1935, and to $12,778,373.35 in 1936; and its net income before provision for Federal income taxes amounted to $163,790.08 and $788,380.50, respectively, in these years, and after deduction of income taxes to $141,268.95 and $660,112.30, respectively.

Control of net assets having an aggregate book value of $33,240,778.51 was thus acquired by Republic Steel Corp. during the year 1937. However, inasmuch as $650,446.34 of Niles Steel Products Co.'s liabilities was a debt to the Republic Steel Corp. group, and $2,585,380.73

of the net assets of Gulf States Steel Co. were to be used for the redemption of its preferred stock on January 2, 1937, the book valuation of the net assets acquired amounted to only $30,004,951.44. This amount, related to the $323,232,518 of capital of the acquiring corporation at the beginning of that year, constituted a 9.3-percent increase in the capital under its control.

The acquired companies' net sales aggregated $14,440,190 in 1936, and their net income after providing for income taxes aggregated $605,370 for that year.

In comparison with the above-stated amounts, the net sales of Republic Steel Corp. for the year 1936 amounted to $218,317,399, and its net income after providing for income taxes amounted to $9,584,299. Thus, these two acquisitions may be said to have augmented Republic Steel Corp.'s net sales about 6.6 percent, and its profit after deduction of income taxes about 6.3 percent.

Acquisition of the capital stock of the Stevens Metal Products Co.—Republic Steel Corp., as of September 21, 1945, purchased all of the outstanding shares of capital stock of the Stevens Metal Products Co. for $1,004,664 in cash. At the time of acquisition the acquired company was engaged in the business of manufacturing steel drums and containers.

The Stevens Metal Products Co. had, on December 31, 1944, net assets of $748,763.93, all of which constituted the stockholders' equity. The reported purchase price of $1,004,664 was $255,900.07 in excess of that amount.

The net assets of Republic Steel Corp. on December 31, 1944, amounted to $353,831,708. Since the acquired equity in the Stevens Metal Products Co. was paid for in cash to the stockholders of that company, the transaction actually decreased the combined net assets of the two enterprises $1,004,664. The amount of cash paid by the acquiring corporation was $255,900.07 in excess of the book value of the net assets acquired, thereby decreasing the stockholders' equity by that amount.

During the year ended December 31, 1944, the Stevens Metal Products Co.'s net sales amounted to $2,870,516.15, and its profit amounted to $69,097.65 before providing for Federal income and excess profits taxes, or to $40,796.72 after deducting that provision.

In comparison with these amounts of sales and profits, the acquiring corporation's net sales for the same year amounted to $527,903,507, and its profit amounted to $41,781,486 before provision for Federal income and excess profits taxes—or to $10,149,611 after deduction of that provision.

The following is a listing of the acquisitions during the period:

Republic Steel Corp.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1928	The Trumbull Steel Co	$48,048,867
1928	Steel & Tubes, Inc	6,809,636
1930	The Trumbull-Cliffs Furnace Co.[1]	7,863,908
1930	Union Drawn Steel Co.[1]	11,959,148
1930	Central Alloy Steel Corp	138,343,543
1930	Donner Steel Co	
1930	The Bourne-Fuller Co	
1935	The Corrigan-McKinney Steel Co	61,683,691
1935	Truscon Steel Co.[1]	11,023,379
1936	Canton Tin Plate Corp	514,985
1937	Niles Steel Products Co.[1]	273,597
1937	Gulf States Steel Co	29,731,354
1945	The Stevens Metal Products Co.[1]	[2] 255,900
	Total	315,996,208

[1] Acquistion of capital stock.
[2] Capital impairment.

JONES & LAUGHLIN STEEL CORP.

Position in the industry.—Jones & Laughlin Steel Corp. was rated in 1945 as the fourth largest steel producer in the United States. Its operations embrace six major divisions as follows: The manufacture and sale of pig iron and a diversified line of rolled steel products consisting of hot-rolled billets, steel bars, skelp, merchant bars, structural shapes, bars for concrete reinforcement and plates, cold finished shapes, shafting and tubing, hot- and cold-rolled strip and sheets, railroad spikes and tie plates, wire rods, wire, wire rope, nails and staples, tin-mill products, welded and seamless tubular products, steel barrels, drums, and asphalt casings, castings, fabricated structural columns, girders and trusses; the production of coke for its own use and the sale of coke byproducts; the mining of ore and coal and the quarrying of limestone; the transportation of ore on the Great Lakes and of coal on the Monongahela and Ohio Rivers for use by the corporation, and the transportation of the corporation's products via the Monongahela, Ohio, and Mississippi Rivers; the operation of connecting railroads at Pittsburgh, Aliquippa, and Cleveland; and the manufacture for the United States Government of certain finished and semifinished ordnance and munitions.

As of January 1, 1945, the rated capacities of the corporation's facilities were estimated at 5,024,400 net tons of steel ingots and castings, 4,080,000 net tons of pig iron, and 3,432,000 net tons of coke per annum.

Organization of Jones & Laughlin Steel Corp.—Jones & Laughlin Steel Corp. was incorporated under the laws of the State of Pennsylvania on December 19, 1922, to acquire the business and assets of Jones & Laughlin Steel Co., which had been incorporated in Pennsylvania in June 1902, as successor to the former partnership of Jones & Laughlin, Ltd., established in 1850.

Acquisitions by Jones & Laughlin Steel Corp.—From January 1, 1923, to the end of 1945, Jones & Laughlin Steel Corp. acquired, either wholly or in part, 19 independent enterprises, information concerning 13 of which was furnished. It acquired, on July 5, 1928, a controlling interest in the capital stock of Frick-Reid Supply Corp.; the warehouse property and business of Roehm & Davison were acquired as of June 12, 1929; a New Orleans, La., property of Lukens Steel Co. was purchased on April 1, 1931; also, on July 7, 1931, it purchased the entire capital stock of Louisiana Erecting Co., Inc., a subsidiary of Lukens Steel Co.

Jones & Laughlin acquired the capital stock of Roy L. Brower Corp. during 1934; the business and assets of National Bridge Works were acquired on May 16, 1935; a tract of land in Philadelphia, Pa., was purchased from Hajoca Corp. on June 26, 1940; also on October 1, 1940, it purchased from McKeesport Tin Plate Corp. a plant for the manufacture of tin plate located at Port Vue, Pa.

One June 30, 1942, the most important acquisition was made when the business and most of the assets of Otis Steel Co. were acquired. This enterprise's capital, inclusive of long-term borrowings, exceeded $35.5 million as of December 31, 1941.

A Jones & Laughlin Steel Corp. subsidiary acquired, as of December 8, 1942, the business and most of the assets of Wackman Welded Ware Co.; also, on July 1, 1944, it purchased the business and most of the assets of Draper Manufacturing Co.

The Electricweld Tube Division of Talon, Inc., was purchased by Jones & Laughlin Steel Corp. on December 29, 1944; and on October 1, 1945, one of its subsidiaries acquired all of the outstanding capital stock of Mitchell Investment Co.

Each of these 13 acquisitions is discussed in more detail in the following paragraphs.

Acquisition of the controlling interest in the capital stock of Frick-Reid Supply Corp.—On June 7, 1928, an agreement was entered into whereby a company, to be known as Frick-Reid Supply Corp., was to be organized under the laws of Pennsylvania, to acquire through consolidation the assets and business of Frick-Reid Supply Co. and Frick & Lindsay Co. Both of these companies had been engaged in the business of distributing equipment and supplies for drilling and operating oil and gas wells and for pipe lines, refineries and pumping stations.

Twenty days later, on June 27, 1928, Jones & Laughlin purchased from John A. Roebling's Sons Co. 10,000 shares of the capital stock of Frick & Lindsay Co. for $1.6 million in cash. These shares were subsequently exchanged for 40,000 shares of the common stock of the newly organized Frick-Reid Supply Corp. On July 5, 1928, Frick-Reid issued 6,383 shares of its common stock to Jones & Laughlin for $300,000 in cash. These 46,383 shares gave the acquiring corporation an interest of approximately 55 percent in the ownership of Frick-Reid Supply Corp. Thereafter, from time to time Jones & Laughlin Steel Corp. purchased additional shares of the acquired corporation's stock until, on February 29, 1944, it had acquired the entire capital stock of Frick-Reid Supply Corp.

A proforma balance sheet of Frick-Reid Supply Corp. as of December 31, 1927, prepared from the balance sheets of Frick & Lindsay Co. and Frick-Reid Supply Co., showed net assets amounting to $7,021,640.67. Of this, $3,000,000 was represented by a proposed 6-percent debenture issue; and the remaining $4,021,640.67 constituted the stockholders' equity represented by 84,706 shares of no par value common stock.

Inasmuch as cash in the amount of $1,900,000 constituted the consideration paid for the controlling interest in net assets of a book valuation of $7,021,640.67, the net increase in the capital under the control of Jones & Laughlin amounted to only $5,121,640.67, which related to its $191,342,646 of capital as of December 31, 1927, constituted a capital increment of 2.7 percent.

Sales and profit data for the year 1927 are not available for either the acquired or the acquiring corporations.

Acquisition of property and business of Roehm & Davison.—Jones & Laughlin on June 12, 1929, purchased the business and warehouse property (consisting of real estate, buildings, and equipment) of Roehm & Davison in Detroit, Mich., for a cash consideration of $1,641,127.79.

Rome & Davison had, on December 31, 1928, net assets of $2,103,650 after deduction of current liabilities. During the year ended on that date, the acquired company's profit amounted to $303,658.76 after providing for income taxes.

In consummating this acquisition, Jones & Laughlin Steel Corp. expended cash in the amount of $1,641,127.79 with the result that it added net assets valued at not in excess of $462,522.21, which compared with its $199,736,630 of capital at the beginning of that year.

Relating the acquired company's 1928 profit to the corresponding amount of $15,568,687 netted by Jones & Laughlin, indicates that the acquisition added about 2 percent to the net earning power of that corporation. Net sales data for 1928 are not available for either of these companies.

Acquisitions during 1931.—During 1931 Jones & Laughlin Steel Corp. acquired two New Orleans, La., properties from Lukens Steel Co.

On April 1, 1931, Jones & Laughlin purchased from Lukens Steel a warehouse property in New Orleans for the warehousing of steel and steel products.

The depreciated value of the acquired property, as reflected on the books of the vending company, at the date of acquisition was $542,571.48, for which the acquiring corporation paid $545,000 in cash.

The entire capital stock of Louisiana Erecting Co., Inc., a subsidiary of Lukens Steel, was purchased for $16,400 in cash by Jones & Laughlin on July 7, 1931. The acquired enterprise was a Louisiana corporation engaged in the construction business in the city of New Orleans.

The balance sheet of Louisiana Erecting Co., Inc., for July 7, 1931, showed net assets in the amount of $14,225.60, all of which constituted the stockholders' equity. During the year ended on October 31, 1930, the acquired company's net profit amounted to $483.90 after having sustained a $29,185.15 loss during the preceding year.

Through these two acquisitions Jones & Laughlin acquired assets valued at $556,797 in exchange for cash in the amount of $561,400 resulting in a depletion of its capital in the amount of $4,603.

Acquisition of the capital stock of Roy L. Brower Corp.—On June 29, 1934, all but 25 shares of the capital stock of Roy L. Brower Corp. were acquired by Jones & Laughlin, the principal creditor of that corporation, without the payment of any consideration to the owners of such shares. On October 27, 1934, Jones & Laughlin acquired the remaining 25 shares for a total consideration of $25. The acquired corporation had been engaged in the business of jobbing nails in the city of New York and had become involved in financial difficulties.

Roy L. Brower Corp.'s balance sheet, as of June 30, 1934, showed current liabilities in the amount of $71,914.07 against total assets of only $48,876.95, resulting in a $23,037.12 capital impairment. This capital impairment, plus the consideration paid by the acquiring corporation, resulted in a $23,062.12 depletion of Jones & Laughlin's net assets.

During the year ended December 31, 1933, Roy L. Brower Corp.'s net sales amounted to $231,565.96; and its net loss for the year was $5,099.83. In comparison with these amounts, the net sales of Jones & Laughlin for the year ended December 31, 1933, amounted to $44,535,948; and it sustained a $5,366,996 net loss for the year.

Acquisition of the assets of National Bridge Works.—On May 16, 1935, Jones & Laughlin Steel Service, Inc., a wholly owned subsidiary of Jones & Laughlin Steel Corp., acquired the business and assets of National Bridge Works of Long Island City, N. Y.

A balance sheet of National Bridge Works as of December 31, 1934, showed net assets amounting to $619,101.53, represented by a mortgage debt of $164,500 and stockholders' equity with a book value of $454,601.53.

In consideration for these net assets, the acquiring company assumed the vending company's $164,500 mortgage debt, paid $65,711.28 in cash, and delivered $41,200, par value, of 7 percent cumulative preferred stock and 412 shares, valued at $74,160 of common stock of Jones & Laughlin Steel Corp. The total value of the consideration paid was only $345,571.28, or 55.8 percent of the book value of the net assets acquired. This is probably accounted for by the fact that the vending company's operations had been unprofitable during the years immediately preceding the acquisition, it having sustained losses of $64,751.49, $13,969.23, and $47, 580.12, respectively, for the years 1932, 1933, and 1934.

Inasmuch as cash in the amount of $65,711.28 was part of the consideration paid for net assets of a book valuation of $619,101.53, Jones & Laughlin acquired a net equity of only $553,390.25, which, related to its $177,876,004 of capital at the beginning of that year, constituted only a slight capital increment.

Acquisitions during 1940.—During 1940, Jones & Laughlin acquired part of the assets of Hajoca Corp., and a tin-plate plant from McKeesport Tin Plate Corp.

On June 26, 1940, Jones & Laughlin purchased from Hajoca Corp. a tract of land in Philadelphia, Pa., consisting of approximately 7 acres, upon which several buildings were located. The acquiring corporation reported that the purpose of this acquisition was to obtain a location for a warehouse operation in the city of Philadelphia.

The depreciated valuation of this property, as reflected on the vending company's books, at the date of acquisition was reported at $465,099.08. For this property Jones & Laughlin Steel Corp. paid, in cash, $472,750 or $7,650.92 more than its book value.

Jones & Laughlin, as of October 1, 1940, purchased from McKeesport Tin Plate Corp. a plant manufacturing tin plate, located at Port Vue, Pa.

As reflected on the books of the vending company, the depreciated value of this plant was $2,745,678.61 as of the date of acquisition. The consideration paid by the acquiring corporation was $3,000,000 in cash, which amount exceeded by $254,321.39 the book valuation of the plant acquired.

Thus, through these two acquisitions, Jones & Laughlin's capital was depleted in the amount of $261,972.31. Its own capital as of December 31, 1939, amounted to $216,510,402.

Acquisitions during 1942.—During the year 1942, Jones & Laughlin acquired the assets of the Otis Steel Co. and of Wackman Welded Ware Co.

As of June 30, 1942, Jones & Laughlin acquired the business and most of the assets of the Otis Steel Co. in Cleveland, Ohio. This company, incorporated in Ohio on January 3, 1912, to acquire the business and properties of Otis Steel Co., Ltd. (of England), had been engaged in the manufacture and sale of steel and steel products.

The Otis Steel Co.'s balance sheet as of December 31, 1941, showed net assets, after deducting current liabilities, amounting to $35,656,076.56. But according to published records the depreciated book value of the assets acquired by Jones & Laughlin was only $35,093,727.

A consideration of $35,078,018.61 was paid for these assets by the acquiring corporation and consisted of the following: $918,267.50 in cash; the assumption of $17,308,990.60 of the vending company's indebtedness, of which amount $13,023,000 was the principal amount of its outstanding first mortgage 4½-percent sinking fund bonds; the transfer to the Otis Steel Co. of $3,255,725, par value, of 5-percent series A cumulative preferred stock, $3,255,725, par value, of 5-percent series B cumulative preferred stock, and 359,363 shares of no par value common stock (valued at $10,339,310.51) of Jones & Laughlin Steel Corp.

The Otis Steel Co.'s net sales amounted to $24,500,022.31 in 1939, to $29,072,621.30 in 1940, and to $41,013,175.89 in 1941; and its profit after providing for income taxes amounted to $214,965.24, $717,006.94, and $2,169,754.20, respectively, in these 3 years.

On December 8, 1942, J. & L. Steel Barrel Co., a wholly owned subsidiary of Jones & Laughlin Steel Corp., purchased the business and most of the assets of Wackman Welded Ware Co., which was engaged in the manufacture of steel drums and steel containers in its six plants located in the States of Missouri, Oklahoma, Louisiana, and Pennsylvania. In consideration for the assets acquired, J. & L. Steel Barrel Co. paid $527,000 in cash.

Wackman Welded Ware Co., on December 31, 1941, had net assets of $752,909.88 after deduction of current liabilities. During the year ended on that date, the acquired company's net sales amounted to $2,821,696.69; and its profit for the year amounted to $77,678.83.

Control of net assets having an aggregate book value of $35,846,636.88 was thus acquired by Jones & Laughlin during the year 1942. However, to effect these acquisitions, it expended cash in the amount of $1,445,267.50, which reduced the value of the increment to a net of $34,401,369.38. This increment, related to the $224,290,646 of capital of the acquiring corporation at the beginning of that year, constituted a 15.3-percent increase in the capital under its control.

The acquired companies' 1941 net sales aggregated $43,834,873 and for the same year their profit aggregated $2,247,433.

In comparison with the above-stated amounts, the acquiring corporation's net sales for the year 1941 amounted to $216,009,805, and its profit amounted to $17,499,983 after providing for Federal income taxes. Hence, these acquisitions may be said to have augmented Jones & Laughlin's net sales about 20.3 percent, and its profit after deduction of income taxes about 12.9 percent.

Acquisitions during 1944.—The assets of the Draper Manufacturing Co. and the Electricweld Tube Division of Talon, Inc., were acquired by Jones & Laughlin during 1944.

Jones & Laughlin, through its wholly owned subsidiary J. & L. Steel Barrel Co., purchased the business and most of the assets of the Draper Manufacturing Co. on July 1, 1944, for a cash consideration of $777,040.68. The vending company owned and operated a plant for the manufacture of steel barrels, drums, and other steel containers at Cleveland, Ohio.

The Draper Manufacturing Co.'s balance sheet as of June 30, 1944, showed net assets, after deducting current liabilities, amounting to $819,028.01. The company's net sales amounted to $2,666,301.42 in 1941, to $6,779,753.01 in 1942, and to $6,447,832.94 in 1943; and its net income before provision for Federal income and excess-profits taxes amounted to $222,267.06, $835,643.73, and $364,405.13, respectively, in these years, and, after deduction of income and excess-profits taxes, to $120,267.06, $229,843.73, and $94,365.73, respectively.

On December 29, 1944, Jones & Laughlin purchased the Electricweld Tube Division of Talon, Inc. The assets of this division, consisting of a plant in Oil City, Pa., equipped to manufacture electric welded tubing, had a depreciated valuation of $783,713.94 on the books of the vending company at the date of the acquisition. In consideration for these assets the acquiring corporation paid $600,000 in cash.

Through these two acquisitions during the year 1944, Jones & Laughlin added net assets of an aggregate book value of $1,602,741.95. However, in effecting the acquisitions it expended cash in the amount of $1,377,040.68, which reduced the capital increment to a net of only $225,701.27, which related to the $253,729,542 of capital of Jones & Laughlin at the beginning of the year.

In comparison with the previously stated amounts for the Draper Manufacturing Co.'s sales and profits for the year 1943, the acquiring corporation's net sales for that year amounted to $280,676,172, and its profit amounted to $31,966,350 before provision for Federal income and excess profits taxes or to $11,512,228 after deduction of that provision. On the basis of a comparison of these results with the corresponding results for the acquired enterprise for the same year, as shown above, it may be said that this acquisition augmented Jones & Laughlin's net sales about 2.3 percent, its net income before income and excess profits taxes about 1.1 percent, and its profit after deduction of income and excess profits taxes only about 1 percent.

Acquisition of the capital stock of Mitchell Investment Co.—As of October 1, 1945, Inter-State Iron Co., a wholly-owned subsidiary of Jones & Laughlin Steel Corp., acquired the entire capital stock of Mitchell Investment Co., the sole asset of which was a mining property in Marquette County, Mich., known as the Rolling Mill Mine.

Mitchell Investment Co. had, per its August 31, 1945, balance sheet, net assets of $8,993, all of which constituted the stockholders' equity. For this equity the acquiring company paid $100,003.60 in cash, which amount was $91,010.60 in excess of the book valuation of the net assets acquired.

The acquired company's profit for the year 1944 amounted to only $451.95, but information as to its sales for that year is lacking.

Jones & Laughlin obtained through this acquisition a mineral deposit that in its opinion was no doubt worth the amount of the cash consideration paid; and, in this sense, the effect of the acquisition was neither to increase nor to decrease the capital employed in the acquiring company's enterprise but merely to change the form of $100,003.60 thereof from cash to investment in mineral deposits.

The effect of these various acquisitions on the capital structure of the Jones & Laughlin Steel Corp. is shown below:

Jones & Laughlin Steel Corp.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1928	Frick-Reid Supply Corp.[1]	$5,121,641
1929	Roehm and Davison	462,522
1931	Lukens Steel Co.[2]	[3] 2,429
1931	Louisiana Erecting Co.[1]	[3] 2,174
1934	Roy L. Brower Corp.[1]	[3] 23,062
1935	National Bridge Works	553,390
1940	Hajoca Corp.[2]	[3] 7,651
1940	McKeesport Tin Plate Corp.[2]	[3] 254,321
1942	The Otis Steel Co.[2]	34,175,460
1942	Wackman Welded Ware Co	225,909
1944	The Draper Manufacturing Co	41,987
1944	Electricweld Tube Division of Talon, Inc	183,714
1945	Mitchell Investment Co.[1]	[3] 91,011
	Total	40,383,975

[1] Acquisition of capital stock.
[2] Portion of assets acquired.
[3] Capital impairment.

THE YOUNGSTOWN SHEET & TUBE CO.

Position in the industry.—At July 1, 1946, the Youngstown Sheet & Tube Co. held fifth place in the iron and steel industry in the United States with a total ingot capacity of 4,002,000 net tons. It is primarily an operating company principally engaged in the manufacture of finished types of steel, particularly flat and tubular steel products. Among the most important products of the company are steel-pipe, sheets, bars, and tin plate for which the oil and gas industry, the automobile industry, the building industry and the container industry constitute the principal markets.

Organization of the Youngstown Sheet & Tube Co.—The Youngstown Sheet & Tube Co. was incorporated under the laws of the State of Ohio, on November 23, 1900, as the Youngstown Iron Sheet & Tube Co. The name was changed to its present title on May 5, 1905.

During 1901 and 1902 the company erected its first plant for the manufacture of iron pipe and sheets. Morgan Spring Co.'s rod and wire mills which adjoined the company's original works were purchased in 1909; and in 1912, Western Conduit Co.'s plant at Harvey, Ill., was purchased.

Acquisitions by the Youngstown Sheet & Tube Co.—From January 1, 1916, to the end of 1945 the Youngstown Sheet & Tube Co. acquired, either wholly or in part, four independent enterprises. During 1916, all of the outstanding capital stock of the Andrews & Hitchcock Iron Co. was purchased by the Youngstown Sheet & Tube Co. The properties and assets of The Brier Hill Steel Co. and the Steel & Tube Co. of America were acquired during 1923. At the end of 1938 a substantial interest in the capital stock of Emsco Derrick & Equipment Co. had been acquired.

Acquisition of the capital stock of the Andrews & Hitchcock Iron Co.—On April 11, 1916, the Youngstown Sheet & Tube Co. purchased all of the outstanding capital stock of the Andrews & Hitchcock Iron Co. for $2 200,000 in cash. The acquired company's plant, consisting of two blast furnaces, in which it manufactured grey forge, malleable and Bessemer pig iron, was located at Hubbard, Ohio.

The Andrews & Hitchcock Iron Co.'s balance sheet as of December 31, 1916, more than 8 months after its acquisition, showed net assets in the amount of $2,527,601.35, all of which constituted the stockholders' equity. Inasmuch as the acquiring company paid $2,200,000 in cash for this equity, the net assets under its control were increased only $327,601.35 which compared with the $40,041,940 of capital of the

Youngstown Sheet & Tube Co. as of January 1, 1916. Sales and profit data for the acquiring company are not available.

Acquisitions during 1923.—The properties and assets of the Brier Hill Steel Co. and the Steel & Tube Co. of America were acquired by the Youngstown Sheet & Tube Co. during the year 1923.

On February 28, 1923, the Youngstown Sheet & Tube Co. acquired all of the properties and assets, and assumed all of the liabilities, of the Brier Hill Steel Co. The vending enterprise manufactured iron and steel products in its three plants located in the Youngstown, Ohio, District; and at the time of its acquisition, the rated capacities of its facilities were estimated at 530,000 tons of pig iron, and 700,000 tons of steel ingots per annum.

The consolidated balance sheet of the Brier Hill Steel Co. and its subsidiaries as of February 28, 1923, showed net assets amounting to $41,827,279.36, represented by a funded debt of $11,381,437.28, 7-percent cumulative preferred stock outstanding in the amount of $5,000,000, and a common stockholders' equity with a book value of $25,445,842.08.

In consideration for these assets, the Youngstown Sheet & Tube Co. assumed the funded debt of $11,381,437.28, issued $5,000,000 of its 7-percent $100 par value cumulative preferred stock in exchange for the outstanding preferred stock of the acquired company, and 187,606 shares of its no par value common stock. The valuation of the 187,606 shares of common stock was not reported. However, based upon the Youngstown Sheet & Tube Co.'s book valuation of about $95.64 per share, after giving effect to the acquisition, the book value of these shares was approximately $17,943,391. Thus the total value of the consideration paid, by the Youngstown Sheet & Tube Co. for net assets with a book valuation of $41,827,279.36 was approximately $34,324,828.28, which was probably attributable to the fact that the acquired company's operation had resulted in net losses of $3,188,588.39 and $1,171,450.68, respectively, during the years 1921 and 1922.

On February 28, 1923, the stockholders of The Steel & Tube Co. of America ratified the sale of its properties to the Youngstown Sheet & Tube Co. However, due to injunction proceedings instituted by Allied Chemical & Dye Corp., and By-Products Coke Corp. (minority stockholders of the vending company) the sale was not consummated until June 30, 1923, at which time all of its properties and assets were acquired and its funded debt assumed by the Youngstown Sheet & Tube Co.

The properties of The Steel & Tube Co. of America included the following: a steel plant located at Indiana Harbor, Ind., with an annual producing capacity of approximately 960,000 tons of steel ingots; fully equiped iron ore mines located in Michigan and Wisconsin, with iron ore reserves of approximately 33,000,000 tons; 228 byproduct coke ovens with an annual producing capacity of about 1,000,000 tons of coke; eight blast furnaces with producing capacity of over 1,200,000 tons of pig iron per annum, five of which were located at South Chicago, Ill., one at Indiana Harbor, Ind., and two at Mayville, Wis., adjacent to its Wisconsin ore properties.

The consolidated balance sheet of The Steel & Tube Co. of America and its subsidiaries as of June 30, 1923, showed net assets amounting to $58,667,008.42, a funded debt of $22,569,203.86, outstanding minority interests in the capital stock and surplus of subsidiary companies of $147,362.99, and a stockholders' equity with a book valuation of $35,950,441.57.

The consideration paid for these assets was reported by the acquiring company as having amounted to $55,153,797.61, consisting of $32,584,593.75 paid in cash to the vending company's stockholders and the assumption of the $22,569,203.86 funded debt. To provide the cash needed for this acquisition, and also for additional working capital, $40,000,000 of 6-percent 20-year debenture gold bonds were issued by The Youngstown Sheet & Tube Co.

The acquired company's gross sales amounted to $29,696,815 in 1921, and to $46,894,400 in 1922; and its net profit for the year 1922 amounted to $472,420 after having sustained a net loss of $2,571,352 in 1921.

Through these two acquisitions, The Youngstown Sheet & Tube Co. acquired control of assets aggregating $100,494,287.78, which, related to the $80,927,605 of capital of the acquiring company at the beginning of the year, constituted a capital increment of 124.2 percent.

As previously stated the gross sales of The Steel & Tube Co. of America during 1922 amounted to $46,894,400, which, related to the $59,313,950 of gross sales by the acquiring company during the same year, indicates an addition to gross sales volume of about 79.1 percent.

Acquisition of a substantial interest in the capital stock of Emsco Derrick & Equipment Co.—As of December 31, 1938, The Youngstown Sheet & Tube Co. purchase for $2,209,950 in cash, approximately 43.8 percent (163,700 shares) of the outstanding shares of common stock of Emsco Derrick & Equipment Co. By December 31, 1944, an additional 136,904 shares of this common stock had been purchased; hence, at that date The Youngstown Sheet & Tube Co. owned 300,604 shares, or approximately 80.46 percent, of the total (373,594) shares outstanding. The acquiring company still retained this percentage of ownership as of July 1, 1946.

Emsco Derrick & Equipment Co. with four plants located at Los Angeles, Calif., Dallas and Houston, Tex., was engaged in the manufacture and sale of steel derricks, a complete line of other oil well drilling and pumping equipment, and fabricated steel specialties.

It was reported that since The Continental Supply Co., a wholly owned subsidiary of The Youngstown Sheet & Tube Co., was the distributor of tubular steel products in the midcontinent oil fields and also was one of the principal distributors of the products of Emsco Derrick & Equipment Co., it was believed that the purchase of an interest in the latter company would result in better coordination between the manufacture and distribution of all of such products.

Emsco Derrick & Equipment Co.'s balance sheet as of December 31, 1938, showed net assets in the amount of $3,917,733.19, all of which constituted the stockholders' equity. The company's net sales amounted to $7,787,754 in 1937 and to $5,218,728 in 1938; and it sustained a net loss of $230,030 in 1938 after having had a net profit of $546,131 in 1937.

While technical control of Emsco Derrick & Equipment Co. was not obtained by The Youngstown Sheet & Tube Co. through the purchase of 43.8 percent of its capital stock, in all probability actual control was exercised. However, since the acquiring company expended cash in the amount of $2,209,950 for this interest, the net assets under its control were increased only $1,707,783.19.

These four acquisitions are summarized as follows:

The Youngstown Sheet & Tube Co.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1916	The Andrews & Hitchcock Iron Co.[1]	$327, 601
1923	Brier Hill Steel Co	41, 827, 279
1923	The Steel & Tube Co. of America	58, 667, 008
1938	Emsco Derrick & Equipment Co.[1]	1, 707, 783
	Total	102, 529, 671

[1] Acquisition of capital stock.

INLAND STEEL CO.

Position in the industry.—On January 1, 1945, Inland Steel Co. was rated as the seventh steel producer in order of magnitude in the United States. Its products include hot- and cold-rolled sheets, tinmill products, hot- and cold-rolled strip, steel bars, standard and special section shapes, steel piling, sheared and universal mill plates, steel rails, joint bars, tie plates, track spikes and bolts, ingots, blooms, billets, slabs, wire rods, pig iron, limestone, coke and coke byproducts. Its subsidiaries produce a variety of fabricated steel articles such as metal lath, casements, steel drums, barrels, and pails. Joseph T. Ryerson & Son, one of its wholly-owned subsidiaries, is said to be the largest steel service organization in the United States, serving a large number of customers with a considerable variety of steel and metal products.

The combined rated capacities of the facilities of the company and its wholly owned subsidiaries on January 1, 1945, were estimated at 3,400,000 net tons of steel ingots and castings, 2,143,400 net tons of coke, and 2,236,000 net tons of pig iron per annum.

Organization of Inland Steel Co.—Inland Steel Co. was incorporated under the laws of the State of Delaware on February 6, 1917, and succeeded to the assets and business and assumed all of the liabilities of a corporation of the same name, which had been incorporated in Illinois on October 30, 1893.

Acquisitions by Inland Steel Co.—From January 1, 1918, to the end of 1945, Inland Steel Co. acquired control of 12 independent enterprises, information concerning 8 of which was furnished. It acquired, during 1928, a controlling interest in the capital stock of Inland Tar. Co. The names of the other 7 enterprises together with the dates on which Inland Steel Co., or its subsidiaries, acquired all of their outstanding capital stock are as follows:

	Date stock was acquired
Joseph T. Ryerson & Son, Inc	Sept. 30, 1935
Milcor Steel Co	June 30, 1936
Wilson & Bennett Manufacturing Co	Apr. 15, 1939
The Nevada Corp	Dec. 31, 1940
Hillside Fluor Spar Mines	June 1, 1943
The J. M. & L. A. Osborn Co	Oct. 1, 1944
Dunwoody Iron Co	Apr. 1, 1945

Acquisition of stock control of Inland Tar Co.—During the year 1928, Inland Steel Co. acquired a controlling interest in the capital stock of Inland Tar Co., for an undisclosed consideration.

Inland Tar Co. had, on December 31, 1927, net assets of $453,388.30 after deduction of current liabilities, all of which consituted the stockholders' equity. During the year ended on that date, the acquired company's net sales amounted to $1,048,231.24; and its profit amounted to $207,470.60 before providing for Federal income taxes or to $179,595.60 after deduction of that provision.

The $453,388.30 of acquired net assets compared with $84,975,851 of capital of Inland Steel Co. at the beginning of the year 1928. Comparison of the previously stated amounts of profits of the acquired company, with Inland Steel Co.'s 1927 net income of $7,800,894 before provision for Federal income taxes, and of $6,806,894 after deduction of that provision, indicates that this acquisition added about 2.7 percent to the acquiring company's net earning power before deducting income taxes, and about 2.6 percent to its net earning power after deduction of that provision. Information as to the acquiring company's net sales in 1927 is lacking.

Acquisition of the capital stock of Joseph T. Ryerson & Son, Inc.—Joseph T. Ryerson & Son, Inc., was incorporated under the laws of Delaware during 1935 and on September 30, 1935, it acquired the business and assets of a company of the same name incorporated in Illinois on October 30, 1928.

This company operates steel-service plants in numerous industrial cities and supplies its many customers (engaged in practically every line of business) with structural shapes, plates, hot-rolled bars, cold finished bars, alloy steel bars, sheet and strip steel, stainless steel, building products, and miscellaneous products such as rails and accessories, boiler tubes, mechanical tubing, manhole covers and saddles, bolts, nuts, washers, rivets, bearings, copper and brass sheets, bars and tubing, etc. It also renders special service such as cutting to size and length, flame cutting of plates and billets to special shapes, punching, bending, welding, and fabricating.

On September 30, 1935, the date on which the Delaware company acquired the assets of the Illinois company, Inland Steel Co. acquired the entire capital stock of the Delaware corporation for 240,000 shares of its own capital stock. These 240,000 shares of Inland Steel Co.'s capital stock, representing 59 percent of the 406,780 shares of Joseph T. Ryerson & Son, Inc. (Illinois) capital stock outstanding as of September 30, 1935, were issued to the stockholders of the Illinois corporation in exchange for the entire capital stock issue of the Delaware corporation.

The balance sheet of Joseph T. Ryerson & Son, Inc. (Illinois) as of September 30, 1935, showed net assets, after deducting current liabilities, amounting to $12,382,649.52, all of which constituted the stockholders' equity. During the year ended December 31, 1934, this company's net sales amounted to $14,440,184.69; and its profit amounted to $1,588,363.90 before provision for income tax or to $1,380,897.54 after deduction of that provision.

The valuation of the 240,000 shares of Inland Steel Co.'s capital stock which it issued for this equity was not reported. However, based upon Inland Steel Co.'s book valuation of about $48.96 per share, after giving effect to the acquisition, the book value of these shares was approximately $11,749,586.

In comparison with the above-stated valuations and amounts, the net assets of Inland Steel Co. as of December 31, 1934, amounted to

$95,244,280; its net sales amounted to $40,404,309, and its net income before providing for income taxes amounted to $4,302,003 or to $3,729,890 after deduction of that provision. This acquisition, therefore, may be said to have augmented the net assets controlled by Inland Steel Co. about 13 percent; its net sales volume about 36 percent; its net earning power by about 37 percent, both before providing for income taxes and after deduction of that provision.

Acquisition of the capital stock of Milcor Steel Co.—Inland Steel Co., on June 30, 1936, acquired all of the outstanding capital stock (89,693 shares) of Milcor Steel Co., which was engaged in the manufacture of sheet-metal products consisting primarily of sheet steel building materials, and the sale and distribution, through its own warehouses, of such products, and of similar products manufactured by others.

Milcor Steel Co.'s balance sheet as of July 1, 1936, showed net assets in the amount of $3,571,351.55, all of which constituted the stockholders' equity. For this equity the acquiring company issued 59,000 shares of its no-par-value capital stock, the book valutation of which was approximately $3,128,139. This acquired equity, related to the $110,108,980 of capital of Inland Steel Co. at the beginning of that year, constituted a capital increment of 3.24 percent.

During the year ended December 31, 1935, the acquired company's net sales amounted to $5,459,874.39; and its profit amounted to $506,338.48 before providing for Federal income taxes or to $420,031.96 after deducting that provision.

Comparison of these amounts of net sales and profits of the acquired company with Inland Steel Co.'s net sales in 1935, in the amount of $62,544,872, its profit of $10,967,818 before providing for Federal income taxes and of $9,417,818 after deducting that provision, indicates that this acquisition added about 8.7 percent to the acquiring company's net sales volume, over 4 percent to its net earning power both before and after income taxes.

Acquisition of the capital stock of Wilson & Bennett Manufacturing Co.—In April 1939, Inland Steel Co. acquired, for 45,000 shares of its no-par-value capital stock, the entire capital stock (243,000 shares) of Wilson & Bennett Manufacturing Co., which was engaged in the manufacture and sale of steel drums, barrels, and pails.

As of December 31, 1938, the book valuation of the 45,000 shares of Inland Steel Co.'s capital stock was approximately $2,772,305; and on that date, the acquired company had net assets of $3,007,708.04. This amount, related to the $148,422,052 of capital of Inland Steel Co. as of December 31, 1938, constituted an increment through acquisition of about 2 percent.

During the year ended December 31, 1938, Wilson & Bennett Manufacturing Co.'s net sales amounted to $6,544,522.27; and its profit amounted to $8,293.17 before provision for income taxes or to $7,043.17 after deducting that provision.

In comparison with the above-stated amounts, the net sales of Inland Steel Co. for the same year amounted to $74,058,924, its profit before providing for income taxes amounted to $6,036,726 and after deduction of that provision to $4,916,203. It thus appears that this acquisition augmented Inland Steel Co.'s net sales volume about 8.8 precent, and its profit both before and after providing for income taxes by less than 1 percent.

Acquisition of the capital stock of the Nevada Corp.—On or about December 31, 1940, Inland Steel Co. acquired all of the outstanding capital stock of The Nevada Corp. for an undisclosed consideration. This corporation was liquidated and dissolved during the year 1941 and its principal assets, consisting of reserve mining properties, were transferred to The Nevada Land Co., an Inland Steel Co. subsidiary.

The Nevada Corp.'s balance sheet as of December 31, 1940, showed net assets, after deducting current liabilities, in the amount of $639,780.65, which compared to the $154,741,025 of capital of the acquiring company at the beginning of that year. Data on the acquired corporation's sales and profits are not available.

Acquisition of the capital stock of Hillside Fluor Spar Mines.—As of June 1, 1943, Inland Steel Co. purchased the entire capital stock of Hillside Fluor Spar Mines, which owned and operated a fluorspar property in the Kentucky-Illinois District. According to Inland Steel Co.'s annual report for 1943 this acquisition was made to further round out its integration by owning its own fluorspar reserve.

Hillside Fluor Spar Mines' balance sheet as of May 31, 1943, showed a stockholders' equity amounting to $363,316.37. The company also had outstanding mineral rights purchase contracts aggregating $51,000, of which $4,000 was payable within the ensuing year. The company's net sales amounted to $326,070.67 in 1940, to $631,832.81 in 1941 and to $665,327.22 in 1942; and its net income before provision for Federal income and excess profits taxes amounted to $41,626.29, $118,919.87, and $73,198.39, respectively, in these years, and after deduction of income and excess profits taxes, to $33,926.29, $63,146.34, and $54,648.39, respectively. For this equity Inland Steel Co. paid $563,115 in cash, or $199,798.63 more than its book valuation.

Inland Steel Co. obtained through this acquisition a mineral reserve that, in its opinion, was no doubt worth the amount of the cash paid; and, in this sense, the effect of the acquisition was neither to increase nor to decrease the capital employed in the acquiring company's enterprise, but merely to change the form of $563,115 thereof from cash to investment in mineral reserves.

Acquisition of the capital stock of the J. M. & L. A. Osborn Co.—All of the outstanding capital stock of the J. M. & L. A. Osborn Co. was acquired, on October 1, 1944, by Milcor Steel Co., a wholly-owned subsidiary of Inland Steel Co. The business of the acquired company was the manufacture and sale of metal products consisting primarily of sheet steel building materials.

The J. M. & L. A. Osborn Co. had, on October 1, 1944, net assets of $1,491,474.49, all of which constituted the stockholders' equity. The reported purchase price of $1,691,800 was $200,325.51 in excess of that amount.

The acquired company's net sales amounted to $4,749,623.67 in 1941, to $3,202,301.31 in 1942 and $3,349,214.15 in 1943; and its profit before providing for Federal income and excess profits taxes amounted to $381,992.98, $159,629.54, and $192,358.22, respectively, in these years and after deduction of income and excess profits taxes, to $182,593.12, $100,345.20, and $107,676.68, respectively.

Acquisition of the capital stock of Dunwoody Iron Co.—Inland Steel Co., having owned one-half of the capital stock of Dunwoody Iron Co. for several years, acquired, on April 1, 1945, all of the remaining shares for an undisclosed consideration. The acquired company was engaged in the business of mining iron ore in the Mesabi Range of Minnesota.

A balance sheet of Dunwoody Iron Co. as of December 31, 1944, showed net assets amounting to $229,822.44. Of this, $80,060.57 was offset by advances by stockholders for capital expenditures; and the remaining $149,761.87 constituted the stockholders' equity. At this date, the acquiring company had $45,030 of its capital invested in the acquired company so that the book valuation of the net assets acquired could not have been in excess of $184,792.44. Dunwoody Iron Co.'s sales and profit data for the year ended December 31, 1944, are lacking.

The acquisitions are summarized below:

Inland Steel Co.

Year acquired	Company whose capital stocks were acquired	Capital increment
1928	Inland Tar Co	$453,388
1935	Joseph T. Ryerson & Son, Inc	12,382,649
1936	Milcor Steel Co	3,571,351
1939	Wilson & Bennett Manufacturing Co	3,007,708
1940	The Nevada Corp	639,780
1943	Hillside Fluor Spar Mines	[1] 199,799
1944	The J. M. & L. A. Osborn Co	[1] 200,326
1945	Dunwoody Iron Co	184,792
	Total	19,839,543

[1] Capital impairment.

THE AMERICAN ROLLING MILL CO.

Position in the industry.—The American Rolling Mill Co., an operating company, was rated among the largest 10 steel producers in the United States as of January 1, 1945. It is an exclusive manufacturer of high-grade sheet metal and has a diversified business serving all users of sheet metal. The principal consumers of the company's products are the automobile, building, railroad, metal container, machinery, oil, gas and mining, and agricultural machinery industries.

The company had also developed a special process for continuous rolling of steel sheets which it permits certain other steel producers to use under license agreements.

The combined rated capacities of the facilities of the company and its wholly owned subsidiaries on January 1, 1945, were estimated at 3,268,000 net tons of steel ingots and castings, 768,000 net tons of coke, and 1,594,000 net tons of pig iron per annum.

Organization of The American Rolling Mill Co.—A company by the name of The American Rolling Mill Co. was incorporated December 29, 1899, in New Jersey, and in 1905 it purchased the plant and good will of the Muskingum Valley Steel Co. at Zanesville, Ohio.

On January 23, 1917, a plan of reincorporation of The American Rolling Mill Co. and consolidation with The Columbus Iron & Steel Co. was submitted to the stockholders of the New Jersey company. This plan was approved, and on June 29, 1917, the American Rolling Mill Co. (Ohio) was incorporated under the laws of Ohio. Two days later, on July 1, 1917, the new company acquired the business and assets of the two previously named companies by exchanging its stock for their stocks on the basis of share for share and dollar for dollar of par value—all shares of stock exchanged being of $100 par value each.

Acquisitions by the American Rolling Mill Co.—From June 30, 1915, to the end of 1945, the American Rolling Mill Co. acquired more than 30 independent enterprises, information concerning 13 of which was furnished. About July 1, 1917, it acquired the assets and business of The Columbus Iron & Steel Co.; the business and assets of Ashland Iron & Mining Co. were acquired in December 1921; Forged Steel Wheel Co.'s assets were acquired as of August 1, 1927; also, during 1927 it purchased a controlling interest in the capital stock of Norton Iron Works, Inc.

All of the outstanding capital stock of Lyle Culbert & Road Equipment Co. was purchased during 1929; and, on June 19, 1930, the assets of Sheffield Steel Corp. were acquired.

During 1934 the physical properties of Belfont Steel & Wire Co. were acquired in a bankruptcy sale; also, during this year, a wholly-owned subsidiary acquired, by lease, the two following properties: East Works of Scullin Steel Co.'s St. Louis, Mo., plant; and the steel plant of the Sand Springs Home at Sand Springs, Okla.

As of October 1, 1935, the assets of Calco Iron Pipe, Ltd., a holding company, were acquired; all of the capital stock of Hamilton Coke & Iron Co. was acquired as of April 1, 1936; by February 1937 a substantial interest in the capital stock of Rustless Iron & Steel Corp. had been acquired; and, on December 21, 1942, all of Colcord Coal Co.'s outstanding capital stock was purchased.

Each of these 13 acquisitions is discussed in more detail in the following paragraphs.

Acquisition of the assets of The Columbus Iron & Steel Co.—About July 1, 1917, The American Rolling Mill Co. (Ohio), which had been in existence only since June 29, 1917, acquired the assets and business of its predecessor company The American Rolling Mill Co. (New Jersey) and of the Columbus Iron & Steel Co.

The Columbus Iron & Steel Co. which was incorporated on November 21, 1899, in Ohio, and which had two blast furnaces located on 100 acres of land at South Columbus, Ohio, limestone quarries at West Columbus, Ohio, Lake Superior ore properties, coal mines and coke ovens at Marting, W. Va., and byproduct coke ovens at Portsmouth, Ohio, had been engaged in the production of pig iron, a substantial part of which had been sold to The American Rolling Mill Co. (New Jersey).

There are no financial data available for The Columbus Iron & Steel Co. at, or shortly prior to, July 1, 1917. However, the consolidated balance sheet of the American Rolling Mill Co. (Ohio) as of July 1, 1917, after effecting the acquisitions, showed net assets amounting to $22,230,672, while the New Jersey company's June 30, 1917, balance sheet showed net assets of only $15,992,586. Therefore, it is assumed that the difference of $6,238,086 between these two amounts represents a fair valuation of the net assets acquired from The Columbus Iron & Steel Co.

In effecting this acquisition, The American Rolling Mill Co. (Ohio) issued, to the stockholders of The Columbus Iron & Steel Co., 10,000 shares of its $100 par value common stock and 5,000 shares of its $100 par value 6 percent preferred stock, a total value of $1,500,000 which was the value of the outstanding capital stock of the vending company.

By this acquisition, the capital of the Ohio corporation was 39 percent more than its predecessor New Jersey corporation.

Acquisition of the assets of Ashland Iron & Mining Co.—The American Rolling Mill Co., in December 1921, acquired the assets and business of Ashland Iron & Mining Co. which was engaged in the manufacture and sale of pig iron, semifinished steel products such as billets, blooms, slabs and sheet bar, steel sheets, and coal mining.

A balance sheet of Ashland Iron & Mining Co. as of December 31, 1921, showed net assets (after deducting current liabilities) amounting to $10,676,394.23.

In consideration for these net assets, the acquiring company paid 39,875 shares of its $25 par value common stock, $996,875, and assumed the vending company's liabilities in the amount of $5,046,011.83.

Inasmuch as $1,360,666.23 of the vending company's liabilities was a debt to the American Rolling Mill Co., the book valuation of the net assets acquired amounted to only $9,315,728, which, related to the $34,382,247 of capital of the acquiring company at the beginning of that year, constituted an increment of 27.1 percent. Sales and profit information for the year 1921 were not available.

Acquisitions during 1927.—During the year 1927, The American Rolling Mill Co. acquired the assets of Forged Steel Wheel Co. and stock control of Norton Iron Works, Inc.

As of August 1, 1927, the American Rolling Mill Co. acquired the properties comprising the Butler (Pennsylvania) works, inventories, certain contracts, patent rights, and 29,594 shares of a total of 30,000 outstanding shares of the common stock of The Columbia Steel Co. (Ohio) from Forged Steel Wheel Co. Shortly after acquiring these assets, the American Rolling Mill Co. transferred them, exclusive of the patent rights, to Columbia Steel Co. (Pennsylvania) in exchange for its entire capital stock.

Immediately prior to the acquisition, Forged Steel Wheel Co. was engaged in manufacturing and selling hot-rolled coils and sheets, certain grades of cold-rolled sheets, and forged steel railroad car wheels, and the Columbia Steel Co. (Ohio) in rolling, processing, and selling steel strip.

There being no information available as to the financial position of the vending company at, or shortly prior to, the date of this acquisition, it is assumed that the consideration paid in the amount of $15,823,182, consisting of $2,500,000 principal amount of The American Rolling Mill Co.'s 5-percent serial notes, $5,000,000 principal amount of first mortgage serial 6-percent gold bonds of Columbia Steel Co. (Pennsylvania), $5,000,000 par value of The American Rolling Mill Co.'s 6-percent series A cumulative preferred stock, and $3,323,182.04 in cash, constitutes an approximation of the value of the assets acquired.

The American Rolling Mill Co., having previously acquired approximately 36 percent of the outstanding shares of the capital stock of Norton Iron Works, Inc., purchased, during 1927 and 1928, practically all of the remaining shares and merged it late in 1928. The acquiring company obtained a controlling interest during 1927 for an undisclosed consideration.

According to information obtained from The American Rolling Mill Co., Norton Iron Works, Inc., had been shut down for some years prior to the acquisition, but it had previously produced pig iron, wire, barbed wire, wire nails, wire cloth, and cut nails. Its wire drawing equipment and nail machines were obsolete and certain of its buildings badly deteriorated. It is reported that The American Rolling Mill Co.'s purpose in acquiring the enterprise was to obtain its blast furnace and auxiliary equipment, for the purpose of replacing the pig iron productive capacity of a blast furnace just previously abandoned.

Norton Iron Works, Inc., had, on February 28, 1927, net assets of $2,525,202.07 after deduction of current liabilities. Of this, $846,200 was an indebtedness to The American Rolling Mill Co.; and the remaining $1,679,002.07 constituted the stockholders' equity.

Information as to the acquired company's sales and profits for the year preceding its acquisition is lacking.

Through these two acquisitions, The American Rolling Mill Co. acquired control of assets aggregating approximately $18,348,384, part of the payment for which was $3,323,182 in cash and the assumption of an $846,200 debt to itself, resulting in the acquisition of a net equity of approximately $14,179,002. This amount, related to $53,511,800 of capital of the acquiring corporation, exclusive of its previous investment in the capital stock of Norton Iron Works, Inc., at the beginning of that year, constituted a capital increment of 26.5 percent.

Acquisition of the capital stock of Lyle Culvert & Road Equipment Co.—The American Rolling Mill Co., during 1929, purchased all of the outstanding capital stock of Lyle Culvert & Road Equipment Co., for $295,334.64 in cash. At the time of acquisition the acquired company was engaged in the manufacture and sale of steel culverts and metal road signs and the sale of certain road machinery and some miscellaneous items.

Lyle Culvert & Road Equipment Co. had, on February 28, 1929, net assets of $282,467.09 after deduction of current liabilities, all of which constituted the stockholders' equity. The reported purchase price of $295,334.64 was $12,867.55 in excess of that amount.

The net assets of The American Rolling Mill Co. on December 31, 1928, was $91,051,443. Since the acquired equity in Lyle Culvert & Road Equipment Co. was paid for in cash to the stockholders of that company, the transaction actually decreased the combined net assets of the two enterprises $295,334.64. The amount of cash paid by the acquiring company was $12,867.55 in excess of the book value of the net assets acquired. The acquired company's sales and profit data for the year 1928 are not available.

Acquisition of the assets of Sheffield Steel Corp.—On June 19, 1930, The American Rolling Mill Co. acquired the assets of Sheffield Steel Corp., which was engaged in the business of manufacture and sale of steel billets, bars, rods, road fabric, commodity sheets and light plates, tie plates, light structurals, bolts and nuts, spikes, wire and wire mill products, and other miscellaneous steel products.

Sheffield Steel Corp.'s balance sheet as of May 31, 1930, showed net assets (after deducting current liabilities) amounting to $12,218,993.65. The corporation's net sales amounted to $6,025,592.76 in 1927, to $6,984,862.48 in 1928 and to $9,531,554.35 in 1929; and its net income before provision for Federal income taxes amounted to $766,871.94, $1,222,679.92, and $1,373,880.04, respectively, in these years and, after deduction of income taxes, to $663,871.94, $1,094,979.92, and $1,216,880.04 in the three years, respectively.

The consideration paid by The American Rolling Mill Co. aggregated $7,500,000 and consisted of $522,100 in cash, 200,000 shares of its $25 par value common stock and 19,779 shares of its $100 par value series B, cumulative preferred stock.

Inasmuch as cash in the amount of $522,100 was part of the consideration paid for net assets of a book valuation of $12,218,993.65, The American Rolling Mill Co. acquired a net equity of only $11,696,893.65, which, related to its $93,560,356 of capital at the beginning of the year, constituted a capital increment of 12.5 percent.

In comparison with the previously stated amounts for sales and profits, the acquiring company's net sales for the year 1929 amounted to $70,434,233, and its profit amounted to $6,729,206 before provision for Federal income taxes or to $6,110,570 after deduction of that provision. On the basis of a comparison of these results with the corresponding results for the acquired enterprise for the same year, as shown above, it may be said that this acquisition augmented The American Rolling Mill Co.'s net sales about 13.5 percent, and its profit after deduction of income taxes about 19.9 percent, its net income before income taxes about 20.4 percent.

Acquisitions during 1934.—The properties of Belfont Steel & Wire Co. were acquired and the East Works of Scullin Steel Co., and the steel plant at Sand Springs, Okla., owned by Sand Springs Home were leased by The American Rolling Mill Co. group during 1934.

The American Rolling Mill Co., during 1934, acquired (in a bankruptcy sale) the land, buildings, machinery, and other physical properties of Belfont Steel & Wire Co. This plant, while equipped to produce steel wire and nails, had been shut down for a number of years immediately preceding its acquisition.

In consideration for these properties the acquiring company paid $39,614.95 in cash and $325,000 principal amount of Belfont Steel & Wire Co.'s bonds (valued by the court at $36,385.05) owned by The American Rolling Mill Co.

There being no information as to the vending company's financial position at, or shortly prior to, the date of its acquisition, it is assumed that the courts' valuation of $76,000 is equitable. However, the consideration paid in cash and the face value of the bonds of the acquired company owned by the acquiring company amounted to $364,615 or $288,615 in excess of the courts' valuation.

Sheffield Steel Corp., a wholly owned subsidiary of The American Rolling Mill Co., during 1934, leased the East Works of Scullin Steel Co.'s St. Louis, Mo., plant. Although these works were equipped to produce steel billets, certain light structural shapes, railroad tie plates, merchant and reinforcing bar, and spikes, they had been shut down during the 6 months immediately preceding their acquisition by lease.

Under the terms of the lease the annual rental was at the rate of $5,000 per month plus one-third of the amount by which annual net profits (before income taxes) exceeded the total of $60,000 and an amount equal to 6 percent of the average monthly working capital used by Sheffield Steel Corp. in the operation, and if such total was more than such net profits, the annual rental was subject to adjustment on the basis that such total of $60,000 plus such 6 percent of working capital bore to such net profits.

The acquiring company reported that it had no knowledge as to the depreciated valuation of the leased properties on the Scullin Steel Co.'s books; also this lease was cancelled in 1945.

In 1934, Sheffield Steel Corp., a wholly-owned subsidiary of The American Rolling Mill Co., and others organized Tulsa Steel Corp. Sheffield Steel Corp. owned beneficially 50 percent of the voting stock and exercised a limited control of Tulsa Steel Corp. under the provisions of a voting trust agreement which entitled it to designate three directors of a total of five, the other two directors to be designated by the holders of the other 50 percent of the stock.

During 1934, the Sand Springs Home Steel Plant located at Sand Springs, Okla., was leased by Tulsa Steel Corp. In 1936 this lease was terminated and Sheffield Steel Corp. leased the properties.

Although this plant was equipped to produce steel ingots, billets, slabs, reinforcing bars and similar products, it had been shut down for some time immediately prior to the time it was leased by Tulsa Steel Corp.

The annual rental payable under the terms of the lease to Tulsa Steel Corp. was 50 cents per ton during the first year and $1 per ton during subsequent years on all finished steel products manufactured, sold and shipped, subject to a minimum rental of $40,000 for the 4-year period beginning after the first year; and under the lease to Sheffield Steel Corp. the annual rental was $1 per net ton on finished steel products and 25 cents per net ton on semifinished products (ingots, billets, and slabs) manufactured at and shipped from the plant, and 25 cents per net ton on products not manufactured at the plant but shipped therefrom, subject to a minimum rental of $30,000 over a period of five years.

Again The American Rolling Mill Co. reported that the depreciated valuation of the leased properties on the books of the lessor was not known by the lessee.

Even though the properties of three enterprises were acquired by The American Rolling Mill Co. group during the year 1934, only the valuation of the net assets acquired from Belfront Steel & Wire Co. is available. And this valuation of $76,000 compared to the consideration paid valued at $364,615 indicates a dissipation of $288,615 of the acquiring company's capital. This amount compared with the $99,913,437 of capital of The American Rolling Mill Co. at the beginning of 1934.

Acquisition of the assets of Calco Iron Pipe, Ltd.—As of October 1, 1935, The American Rolling Mill Co. acquired the assets of Calco Iron Pipe, Ltd., a holding company, not itself actively engaged in manufacturing but owning, directly or indirectly, all of the outstanding capital stock of the following companies: California Corrugated Culvert Co., Western Metal Manufacturing Co. of Arizona; Wilson Tank & Culvert Co., The R. Hardesty Manufacturing Co., The Colorado Culvert & Flume Co., Pure Iron Culvert & Manufacturing Co., Washington Corrugated Culvert Co., Western Metal Manufacturing Co. of Texas, The Lone Stare Culvert Co., Fort Worth Tank & Culvert Co., and F. K. Simonds Co. These companies, with the exception of F. K. Simonds Co., were engaged in manufacturing and selling steel culverts and other drainage products, spiral welded and straight seam steel pipe, steel tanks, and other minor fabricated steel products. F. K. Simonds Co. operated a grey-iron foundry, a substantial part of the product of which was used by California Corrugated Culvert Co. and one or two of the other companies in the manufacture of drainage gates and other fabricated products.

Calco Iron Pipe, Ltd., had, on December 31, 1934, net assets of $2,241,399.96 after deduction of current liabilities. During the year ended on that date the acquired company's profit amounted to $75,377.79.

In comparison with the above-stated amounts, the net assets of The American Rolling Mill Co. as of December 31, 1934, amounted to $99,774,373, and its net income after providing for income taxes amounted to $966,566. It thus appears that this acquisition augmented the net assets controlled by The American Rolling Mill Co. about 2.3 percent, and the profit after deduction of income tax provision about 7.8 percent.

Acquisition of the capital stock of Hamilton Coke & Iron Co.—The American Rolling Mill Co. and an unaffiliated corporation organized Hamilton Coke & Iron Co., in 1927, to acquire a blast furnace and auxiliary properties, not then in operation, from Hamilton Furnace Co. The ownership of the new company was divided equally between the two organizing companies.

As of April 1, 1936, the American Rolling Mill Co. acquired control of Hamilton Coke & Iron Co. for an undisclosed consideration.

From the time of its organization, the acquired company was engaged in the manufacture of pig iron, coke, gas, and certain other coke oven and blast furnace byproducts and provided molten and cold pig iron for The American Rolling Mill Co.'s steel melting operations in its Middletown, Ohio, works.

The balance sheet of Hamilton Coke & Iron Co. as of December 31, 1935, showed net assets, after deducting current liabilities amounting to $6,203,120.81. However, on that date The American Rolling Mill Co.'s records showed their investment (at cost) of a 50-percent ownership, in the acquired company at $2,393,683.40. Thus, by acquiring full ownership of Hamilton Coke & Iron Co. only $3,809,437.41 of net assets were added by the acquiring company. This amount, related to the $109,584,411 of capital of The American Rolling Mill Co. as of December 31, 1935, constituted a capital increment of 3.5 percent.

During the year 1935, Hamilton Coke & Iron Co.'s net sales amounted to $6,733,851.34; and its profit amounted to $601,445.62 before provision for income taxes or to $492,095.62 after deduction of that provision.

In comparison with the above-stated amounts, the net sales of The American Rolling Mill Co. for the year 1935 amounted to $76,625,750, its net income before provision for income taxes amounted to $4,928,972 and after deduction of that provision to $4,313,756. Thus the effect of this acquisition of the other half of the stock of Hamilton Coke & Iron Co. appears to have increased The American Rolling Mill Co.'s net earning power before providing for income taxes about 6.1 percent and about 5.7 percent after deduction of that provision. Inasmuch as most of the output of Hamilton Coke & Iron Co. had been sold to the two companies that controlled it and, after this acquisition was probably sold to The American Rolling Mill Co. itself, to this extent this acquisition of full control did not augment the sales volume of the acquiring organization: Only to the extent of this subsidiary's unknown volume of sales to unaffiliated customers did this acquisition augment the sales volume of the acquiring organization.

Acquisition of a substantial interest in the capital stock of Rustless Iron & Steel Corp.—The American Rolling Mill Co., from August 1936 through February 1937, purchased and acquired through exchange of its common stock approximately 47 percent (403,700 shares) of the outstanding shares of common stock of Rustless Iron & Steel Corp. By February 1944 an additional 151,074 shares of this common stock had been acquired so that at that date The American Rolling Mill Co. owned 554,774 shares or approximately 60 percent of the total shares outstanding. On December 31, 1945, Rustless Iron & Steel Corp. was merged into The American Rolling Mill Co.

Rustless Iron & Steel Corp. was engaged in the manufacture of stainless steel ingots, billets, slabs, steel bar, rods, and wire.

The reported primary purpose for its acquisition of the original interest in the acquired corporation was to insure The American Rolling Mill Co. a dependable source of supply of stainless steel ingots required in its manufacture of stainless steel sheet and strip without having to build its own plant for melting stainless steel.

Rustless Iron & Steel Corp.'s balance sheet as of December 31, 1936, showed net assets in the amount of $1,658,292.89 after deduction of current liabilities. Of this, $275,000 was offset by a first mortgage 6-percent note, of which $125,000 was payable within the ensuing year; and the remaining $1,383,292.89 constituted the stockholders' equity. The corporation's net sales amounted to $818,309.71 in 1934; to $1,682,464 in 1935 and to $2,643,905.41 in 1936; and its net profit before providing for income taxes increased from a $23,033.78 loss in 1934 to profits of $186,132.86 and $409,707.02 respectively in 1935 and 1936 or amounted to $166,132.86 and $350,707.02, respectively, for the two latter years after providing for income taxes.

Published records reveal that The American Rolling Mill Co., as of December 31, 1937, had acquired 406,300 shares of Rustless Iron & Steel Corp. common stock at a cost of $3,439,306.05, which is an average cost of $8.4649 per share. Applying this computed value to the 403,700 shares, acquired through February 1937, a cost of approximately $3,417,297.20 is obtained. However, this computed cost of a 47-percent interest of the common stock of Rustless Iron & Steel Corp. is more than 2.4 times the book value of the entire equity and over 5¼ times the value of the 47-percent interest in that equity.

While legal control of Rustless Iron & Steel Corp. was not obtained by The American Rolling Mill Co. through this stock acquisition, in all probability actual control was exercised. Therefore the net assets under the control of the acquiring company were increased $1,658,292, which, related to the $110,451,344 of capital of The American Rolling Mill Co. at the beginning of that year, constituted an increment of about 1.5 percent.

Comparison of the acquired company's previously stated 1936 net sales and profits before and after providing for income taxes, with The American Rolling Mill Co.'s net sales, for the year 1936, in the amount of $101,268,006, and its $7,815,763 of profit before providing for Federal income taxes, and its $6,447,137 of profit after deduction of income taxes, indicates that this acquisition augmented the acquiring company's net sales volume about 2.61 percent, the net income before income taxes about 5.2 percent and the profit after deduction of income taxes about 5.4 percent.

Acquisition of the capital stock of Colcord Coal Co.—On December 21, 1942, The Aemrican Rolling Mill Co. purchased, for an undisclosed consideration, all of the outstanding stock of Colcord Coal Co., a bituminous coal mining company engaged in an extensive commercial coal business. The coal mined by this company was sold to the trade by its wholly owned subsidiary, Colcord Coal Sales Co.

The American Rolling Mill Co. reported that this acquisition was made for the primary purpose of providing an additional source of coking coal for the operation of its coke ovens at the Hamilton, Ohio, plant.

Colcord Coal Co. had, on December 31, 1942, net assets of $359,282 after deduction of current liabilities, all of which constituted the stockholders' equity.

These acquisitions are summarized as follows:

The American Rolling Mill Co.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1917	The Columbus Iron & Steel Co	$6,238,086
1921	Ashland Iron & Mining Co	9,315,728
1927	Forged Steel Wheel Co.[1]	12,500,000
1927	Norton Iron Works, Inc.[2]	1,679,002
1929	Lyle Culvert & Road Equipment Co.[2]	[3] 12,868
1930	Sheffield Steel Corp	11,696,894
1934	Belfont Steel & Wire Co	[3] 288,615
1934	East Works of Scullin Steel Co	
1934	Sand Springs Steel Plant	
1935	Calco Iron Pipe, Ltd	2,241,400
1936	Hamilton Coke & Iron Co.[2]	3,809,437
1937	Rustless Iron & Steel Corp.[2]	1,658,292
1942	Colcord Coal Co.[2]	359,282
	Total	49,196,638

[1] Portion of assets acquired.
[2] Acquisition of capital stock.
[3] Capital impairment.

THE COLORADO FUEL & IRON CORP.

Organization and the predecessor company.—The Colorado Fuel & Iron Corp. was incorporated under the laws of the State of Colorado on April 16, 1936, pursuant to an approved plan of reorganization of The Colorado Fuel & Iron Company and its wholly-owned subsdiary, Colorado Industrial Co., and on July 1, 1936, acquired the assets and business thereof.

The predecessor company, The Colorado Fuel & Iron Co., had been incorporated under the laws of Colorado on October 21, 1892, as a consolidation of Colorado Coal & Iron Co. and Colorado Fuel Co.

The business of The Colorado Fuel & Iron Corp. is the manufacture and sale of iron and steel products and the mining and sale of coal. The principal products produced are rails, rail fastenings and other steel materials used by railroads, structural steel, bars, rods, wire, wire screens, wire products, cast-iron pipe, coke, and byproducts from the manufacture of coke.

During the year 1924 The Colorado Fuel & Iron Co. acquired control of The American Fluorspar Mining, Leasing, and Transportation Co. through the purchase of a controlling interest of the outstanding capital stock. Control of net assets valued at $176,237 was thus acquired.

Acquisitions by the corporation.—From the date of organization in 1936 to the end of 1945, The Colorado Fuel & Iron Corp. made only three acquisitions of independent enterprises—at least only three concerning which information was furnished. It acquired the business and assets of California Wire Cloth Co. on July 1, 1937, stock control of Union Ditch & Water Co. during the year ended June 30, 1938, and the business and assets of Wickwire Spencer Steel Co. on October 22, 1945. Wickwire Spencer Steel Co. had acquired, 3 weeks earlier on October 1, 1945, the machinery, equipment, and inventory of Coburn Trolley Track Co.

Acquisition of California Wire Cloth Co. and Union Ditch & Water Co.—During the year ended June 30, 1938, The Colorado Fuel & Iron Corp. acquired all of the assets of California Wire Cloth Co., which was engaged in the business of manufacturing and selling wire net products, including stucco netting for the building trade fish-trap netting for the canning industry, spring wire, wire cloth for fly screens and other uses, heavy industrial screens, and other related products. It also acquired 1,205 shares of the capital stock of Union Ditch & Water Co., which controlled certain established and decreed water rights in the Arkansas River.

Net assets of a book valuation of approximately $854,263 were acquired, from California Wire Cloth Co., in exchange for 10,495 shares of common stock of The Colorado Fuel & Iron Corp. at a total agreed valuation of $419,800.

The corporation or its predecessor company had previously acquired 14,520½ shares of the capital stock of Union Ditch & Water Co., which, together with the 1,205 shares purchased for $602.50 during the year ended June 30, 1938, constituted a 52.418 percent interest in the capital stock of that company.

Through these two acquisitions, The Colorado Fuel & Iron Corp. acquired control of additional net assets valued at $1,161,735. This amount, related to the $36,932,001 of capital of the corporation at the beginning of the year, constituted a capital increment of 3.2 percent.

Sales and profit data for the year preceding acquisition was available for California Wire Cloth Co. only. This company's net sales during 1936 amounted to $1,403,231, which, related to the $26,911,745 of net sales by the acquiring corporation during the year ended June 30, 1937, indicated an addition to net sales volume, through the acquisition, of 5.2 percent. In 1936 the acquired company's net income before provision for Federal income taxes amounted to $54,448 and net income after providing for Federal income taxes was $47,755; and these, related to the corresponding amounts of $1,659,929 and of $1,207,850, respectively, netted by The Colorado Fuel & Iron Corp. in the year ended June 30, 1937, indicate that this acquisition added 3.3 percent and 4 percent, respectively, to the corporation's net income earning power before and after income taxes.

Acquisition of Wickwire Spencer Steel Co.—On October 22, 1945, The Colorado Fuel & Iron Corp. acquired all of the assets of Wickwire Spencer Steel Co., which was engaged in the manufacture of a wide variety of steel wire, high and low carbon wire, round, flat, or shaped wire, wire for springs; it also manufactured wire rope and cables for oil, marine, timber, mining, construction, elevator, and other industries and applications including aviation control cord for civilian and military airplanes; other products were insect screen cloth, poultry netting, hardware cloth, nails, picture cord and door springs, metal conveyor belts for a variety of industrial applications, card and napper clothing for textile and tobacco industries, woven cloth and perforated metals, and chain link fences.

Three weeks earlier, on October 1, 1945, Wickwire Spencer Steel Co. had purchased, for $107,656 cash, all of the machinery, equipment, and inventory of Coburn Trolley Track Co. This company was engaged in the manufacture of hardware and parts for overhead sliding doors. The book valuation of the assets acquired was approximately $118,988.

Thus the assets acquired from Wickwire Spencer Steel Co. included those assets which it had so recently purchased.

The consolidated balance sheet of Wickwire Spencer Steel Co. and its subsidiaries as of May 31, 1945, showed net assets (after deducting current liabilities inclusive of the estimated income taxes for the period, January 1 to May 31, 1945) amounting to $20,552,092, which, together with $118,988 of assets purchased for $107,656 cash on October 1, 1945, resulted in net assets acquired, by The Colorado Fuel & Iron Corp., aggregating approximately $20,563,424.

In payment for these net assets The Colorado Fuel & Iron Corp. issued $11,272,400 of $20 par value preferred stock to the Wickwire Spencer Steel Co. stockholders in exchange for their common stock.

This acquired equity in net assets valued at $20,563,424, related to the $43,889,108 of capital of The Colorado Fuel & Iron Corp. at the beginning of the year, constituted a 46.8-percent increase in the capital under the control of the acquiring corporation.

The combined net sales, of Wickwire Spencer Steel Co. and Coburn Trolley Track Co. during 1944, amounted to $26,338,699, which, related to $57,098,100 of net sales by the acquiring corporation during the year ended June 30, 1945, indicate an addition of 46.1 percent to net sales volume of The Colorado Fuel & Iron Corp. In 1944 the two vending companies' combined net income before providing for income taxes amounted to $2,399,799, and their combined net income after deducting income taxes was $1,578,869; and these, related to the corresponding amounts of $3,488,179 and of $1,954,979, respectively, netted by The Colorado Fuel & Iron Corp., in the year ended June 30, 1945, indicate that this acquisition added 68.8 percent and 80.8 percent, respectively, to the corporation's net income earning power before and after income taxes.

These acquisitions are summarized as follows:

The Colorado Fuel & Iron Corp.

Year acquired	Company whose assets or capital stocks were acquired	Capital increment
1937	California Wire Cloth Co	$854,263
1937	Union Ditch & Water Co.[1]	307,472
1945	Wickwire Spencer Steel Co	20,563,424
	Total	21,725,159

[1] Acquisition of capital stock.

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